

17B:19-6

**LEGISLATIVE HISTORY CHECKLIST**  
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(Health & life insurance--  
reserve liabilities)

NJSA: 17B:19-6

LAWS OF: 1995 CHAPTER: 339

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P.L.1995, CHAPTER 339, approved January 5, 1996  
1995 Senate No. 2320

1 AN ACT concerning the valuation of the reserve liabilities for  
2 life and health insurance policies, amending and supplementing  
3 Title 17B of the New Jersey Statutes and repealing  
4 N.J.S.17B:19-6 and N.J.S.17B:19-9.

5  
6 BE IT ENACTED by the Senate and General Assembly of the  
7 State of New Jersey:

8 1. N.J.S.17B:19-8 is amended to read as follows:  
9 17B:19-8. This section shall be known as the standard  
10 valuation law and shall apply to all the life insurance policies,  
11 pure endowment contracts and annuity contracts issued by every  
12 life insurer on or after January 1, 1948 or such earlier date as  
13 shall have been elected by the insurer as the operative date for  
14 such insurer of the standard nonforfeiture law.

15 a. [The] Except as otherwise provided in paragraph (ix) and  
16 paragraph (x) of this subsection, the minimum standard for the  
17 valuation of [the reserve liabilities for] all such policies and  
18 contracts shall be the commissioner's reserve valuation methods  
19 defined in subsections b., e. and f. of this section, 3 1/2%  
20 interest, [except as otherwise provided in paragraphs (iii), (iv),  
21 (ix) and (x) of this subsection for] or in the case of life insurance  
22 policies and contracts, other than annuity and pure endowment  
23 contracts [and paragraph (x) of this subsection for life insurance  
24 policies and disability and accidental death benefits], [and except]  
25 issued on or after [anuary 1, 1973, 4% interest for such policies  
26 [and benefits] issued [on and after January 1, 1973 and] prior to  
27 January 1, 1977 and 4 1/2% interest for such policies [and  
28 benefits] issued on or after January 1, 1977, and the following  
29 tables:

30 (i) For all ordinary policies of life insurance issued on the  
31 standard basis, excluding any disability and accidental death  
32 benefits in such policies, the Commissioners 1941 Standard  
33 Ordinary Mortality Table; provided, however, that the  
34 Commissioners 1968 Standard Ordinary Mortality Table shall be  
35 the table for the minimum standard for such policies issued on or  
36 after January 1, 1966 or, for policies in any category of ordinary  
37 insurance, such earlier date as shall have been elected by the  
38 insurer for the purpose and prior to the operative date, for such  
39 category, provided for in paragraph (xi) of subsection h. of the  
40 standard nonforfeiture law for life insurance (N.J.S.17B:25-19);  
41 [and provided that the Commissioners 1980 Standard Ordinary  
42 Mortality Table, or at the election of the insurer for any one or  
43 more specified plans of life insurance, the Commissioners 1980  
44 Standard Ordinary Mortality Table with Ten-Year Select

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 underlined thus is new matter.

1 Mortality Factors, or any ordinary mortality table, adopted after  
2 1980 by the National Association of Insurance Commissioners,  
3 that is approved by regulation promulgated by the commissioner  
4 for use in determining the minimum standard of valuation for  
5 such policies shall be the table for the minimum standard for  
6 policies in any category of ordinary insurance issued on or after  
7 the operative date, for such category provided for in paragraph  
8 (xi) of subsection h. of section 17B:25-19, the standard  
9 nonforfeiture law for life insurance. Notwithstanding the above  
10 provisions of this paragraph, for any category of ordinary  
11 insurance, reserves for such policies issued on or after July 1,  
12 1957 and prior to the operative date provided for in paragraph (xi)  
13 of subsection h. of section 17B:25-19, the standard nonforfeiture  
14 law for life insurance, may be calculated, at the option of the  
15 insurer, according to the Approved Standard Ordinary Mortality  
16 Table contained in section 17B:19-9; provided further] provided  
17 that for any category of such policies issued on female risks on or  
18 after July 1, 1957 and prior to the operative date provided for in  
19 paragraph (xi) of subsection h. of the standard nonforfeiture law  
20 for life insurance, all modified net premiums and present values,  
21 referred to in [subsection b. of this section,] this section may be  
22 calculated [, at the option of the insurer with approval of the  
23 commissioner,] according to an age not more than six years  
24 younger than the actual age of the insured; and for such policies  
25 issued on or after the operative date provided for in paragraph  
26 (xi) of subsection h. of N.J.S.17B:25-19, the Commissioners 1980  
27 Standard Ordinary Mortality Table, or at the election of the  
28 insurer for any one or more specified plans of life insurance, the  
29 Commissioners 1980 Standard Ordinary Mortality Table with  
30 Ten-Year Select Mortality Factors, or any ordinary mortality  
31 table, adopted after 1980 by the National Association of  
32 Insurance Commissioners, that is approved by regulation  
33 promulgated by the commissioner for use in determining the  
34 minimum standard of valuation of those policies.

35 (ii) For all industrial life insurance policies issued on the  
36 standard basis, excluding any disability and accidental death  
37 benefits in such policies, the 1941 Standard Industrial Mortality  
38 Table; provided, however, that the Commissioners 1961 Standard  
39 Industrial Mortality Table or any industrial mortality table,  
40 adopted after 1980 by the National Association of Insurance  
41 Commissioners, that is approved by regulation promulgated by  
42 the commissioner for use in determining the minimum standard of  
43 valuation for such policies shall be the table for the minimum  
44 standard for such policies issued on or after January 1, 1968 or  
45 such earlier date as shall have been elected by the insurer as the  
46 date on which the calculation of the adjusted premiums referred  
47 to in the standard nonforfeiture law for life insurance  
48 (N.J.S.17B:25-19) for such insurer's industrial life insurance  
49 policies became based upon said table.

50 (iii) For individual annuity and pure endowment contracts  
51 issued prior to the operative date of paragraph (ix) of this  
52 subsection, excluding any disability and accidental death benefits  
53 in such contracts, the 1937 Standard Annuity Mortality Table, or,  
54 at the option of the insurer, the Annuity Mortality Table for

1 1949, Ultimate, or any modification of either of these tables  
2 approved by the commissioner [; provided, however, that for  
3 single stipulated payment individual annuity and single premium  
4 pure endowment contracts issued on or after January 1, 1970,  
5 excluding any disability and accidental death benefits in such  
6 contracts, the minimum standard shall be the lesser of (a) the  
7 standard just described and (b) the standard based on 4% interest  
8 and the Annuity Mortality Table for 1949, Ultimate, or any  
9 modification of such table approved by the commissioner].

10 (iv) For group annuity and pure endowment contracts, except  
11 annuities and pure endowments purchased thereunder on or after  
12 the operative date of paragraph (ix) of this subsection, excluding  
13 any disability and accidental death benefits in such contracts, the  
14 Group Annuity Mortality Table for 1951, any modification of such  
15 table approved by the commissioner, or, at the option of the  
16 insurer, any of the tables or modifications of tables specified for  
17 individual annuity and pure endowment contracts[; provided,  
18 however, that the commissioner may establish regulations  
19 governing the use of 5% interest and either the 1971 Group  
20 Annuity Mortality Table or any modification of such table  
21 approved by the commissioner for either contracts whose  
22 reserves are considered as pension plan reserves of the type set  
23 forth in section 805(d) of the U.S. Internal Revenue Code, as  
24 amended, or contracts of a similar type; and provided further  
25 that for group annuity benefits arising from considerations  
26 received on or after January 1, 1970, excluding any disability and  
27 accidental death benefits, the minimum standard shall be the  
28 lesser of (a) the standard just described and (b) the standard based  
29 on 4% interest and the Group Annuity Mortality Table for 1951,  
30 any modification of such table approved by the commissioner, or,  
31 at the option of the insurer, the Annuity Mortality Table for  
32 1949, Ultimate, or any modification of such table specified for  
33 individual annuity and pure endowment contracts].

34 (v) For total and permanent disability benefits in or  
35 supplementary to ordinary policies or contracts, for policies or  
36 contracts issued on or after January 1, 1966, the tables of Period  
37 2 disablement rates and the 1930 to 1950 termination rates of the  
38 1952 Disability Study of the Society of Actuaries, with due regard  
39 to the type of benefits or any tables of disablement rates and  
40 termination rates [.] adopted after 1980 by the National  
41 Association of Insurance Commissioners, that are approved by  
42 regulation promulgated by the commissioner for use in  
43 determining the minimum standard of valuation for such policies;  
44 for policies or contracts issued on or after January 1, 1981 and  
45 prior to January 1, 1986, either such tables, or, at the option of  
46 the insurer, the Class (3) Disability Table (1926); and for policies  
47 issued prior to January 1, 1981, the Class (3) Disability Table  
48 (1926). [Any such] Either table shall, for active lives, be  
49 combined with a mortality table permitted for calculating the  
50 reserves for life insurance policies.

51 (vi) For accidental death benefits in or supplementary to  
52 policies, for policies issued on or after January 1, 1986, the 1989  
53 Accidental Death Benefits Table or any accidental death benefits  
54 table, adopted after 1980 by the National Association of

1 Insurance Commissioners, that is approved by regulation  
2 promulgated by the commissioner for use in determining the  
3 minimum standard of valuation for such policies; for policies  
4 issued on or after January 1, 1961 and prior to January 1, 1966,  
5 either such table or, at the option of the insurer, the  
6 Inter-Company Double Indemnity Mortality Table; and for  
7 policies issued prior to January 1, 1961, the Inter-Company  
8 Double Indemnity Mortality Table. [Any such] Either table shall  
9 be combined with a mortality table permitted for calculating the  
10 reserves for life insurance policies.

11 (vii) For group life insurance, life insurance issued on the  
12 substandard basis and other special benefits, such tables as may  
13 be approved by the commissioner.

14 (viii) For ordinary and industrial paid-up nonforfeiture term  
15 insurance, and accompanying pure endowment, the table of  
16 mortality based on the rates of mortality assumed in calculating  
17 the paid-up nonforfeiture benefits.

18 (ix) Except as provided in paragraph (x) of this subsection, [for]  
19 the minimum standard for the valuation of all individual annuity  
20 and pure endowment contracts issued on or after the operative  
21 date of this paragraph (ix), as defined herein, and for all annuities  
22 and pure endowments purchased on or after such operative date  
23 under group annuity and pure endowment contracts, the  
24 commissioner's reserve valuation methods defined in subsections  
25 b. [e.] and f. and the following tables and interest rates:

26 (1) For individual annuity and pure endowment contracts,  
27 excluding any disability and accidental death benefits in such  
28 contracts, the 1971 Individual Annuity Mortality Table or any  
29 individual annuity mortality table, adopted after 1980 by the  
30 National Association of Insurance Commissioners, that is  
31 approved by regulation promulgated by the commissioner for use  
32 in determining the minimum standard of valuation for such  
33 contracts, or any modification of any such table approved by the  
34 commissioner, and, for such contracts issued prior to January 1,  
35 1977, 6% interest for single [stipulated payment] premium  
36 immediate annuity [and single premium pure endowment]  
37 contracts, and 4% interest for all other individual annuity and  
38 pure endowment contracts, and such contracts issued on or after  
39 January 1, 1977, 7 1/2% interest for single [stipulated payment]  
40 premium imediate annuity contracts [either of the type whose  
41 reserves are considered as pension plan reserves as set forth in  
42 section 806(d) of the U.S. Internal Revenue Code, as amended, or  
43 of similar type, and 6% interest for other single stipulated  
44 payment immediate annuity contracts,] and 4 1/2% interest for  
45 other individual annuity and pure endowment contracts,  
46 provided, however, that the commissioner may establish  
47 regulations governing the use, in subsequent valuations of single  
48 stipulated payments not previously valued, of an interest rate not  
49 more than 7 1/2% or less than 6%].

50 (2) For all annuities and pure endowments purchased under  
51 group annuity and pure endowment contracts, excluding any  
52 disability and accidental death benefits purchased under such  
53 contracts, the 1971 Group Annuity Mortality Table or any group  
54 annuity mortality table, adopted after 1980 by the National

1 Association of Insurance Commissioners, that is approved by  
 2 regulation promulgated by the commissioner for use in  
 3 determining the minimum standard of valuation for such annuities  
 4 and pure endowments, or any modification of any such table  
 5 approved by the commissioner, and 6% interest; except 7 1/2%  
 6 interest for purchases on or after January 1, 1977 [under either  
 7 contracts whose reserves are considered as pension plan reserves  
 8 of the type set forth in section 805(d) of the U.S. Internal  
 9 Revenue Code, as amended, or contracts of similar type,  
 10 provided, however, that the commissioner may establish  
 11 regulations governing the use, in subsequent valuations of  
 12 purchases not previously valued, of an interest rate not more than  
 13 7 1/2% or less than 6%].

14 [For individual single stipulated payment immediate annuity  
 15 and single premium pure endowment contracts and for annuities  
 16 and pure endowments purchased under group annuity and pure  
 17 endowment contracts, the operative date of this paragraph (ix)  
 18 shall be January 1, 1973.

19 For other individual annuity and pure endowment contracts,]  
 20 After January 1, 1973, an insurer may file with the commissioner  
 21 a written notice of its election to comply with the provisions of  
 22 this paragraph (ix) beginning on a specific date that is on or after  
 23 January 1, 1973 but prior to January 1, 1979. Such specific date  
 24 shall be the operative date of this paragraph for such [contracts  
 25 of the] insurer, provided that if an insurer makes no such  
 26 election, the operative date of this paragraph for such [contracts  
 27 of the] insurer shall be January 1, 1979.

28 (x) The interest rates used in determining the minimum  
 29 standard for the valuation of:

30 [benefits which are subject to the provisions of N.J.S.17B:25-19  
 31 under] all life insurance policies issued in a particular calendar  
 32 year on or after the operative date provided for in subsection  
 33 h. (xi) of N.J.S.17B:25-19; [and all other benefits in life  
 34 insurance policies and] all individual annuity and pure  
 35 endowment contracts issued in a particular calendar year on or  
 36 after January 1, 1981; [and] all annuities and pure endowments  
 37 purchased in a particular calendar year on or after January 1,  
 38 1981 under group annuity and pure endowment contracts; and  
 39 the net increase, if any, in a particular calendar year after  
 40 January 1, 1981, in amounts held under guaranteed interest  
 41 contracts shall be the calendar year statutory valuation  
 42 interest rates established below.

43 The calendar year statutory valuation interest rates, I, shall be  
 44 determined as follows and the results rounded to the nearer 1/4  
 45 of 1%:

46 (1) For life insurance,

$$47 \quad I = .03 + W (R_1 - .03) + W/2 (R_2 - .09);$$

48 (2) For single [stipulated payment] premium immediate  
 49 annuities and for annuity benefits involving life contingencies  
 50 arising from other annuities with cash settlement options and  
 51 from guaranteed interest contracts with cash settlement options,

$$52 \quad I = .03 + W (R - .03)$$

53 where  $R_1$  is the lesser of  $R$  and .09,

54  $R_2$  is the greater of  $R$  and .09.

1 R is the reference interest rate defined in subparagraph (7)  
2 of this paragraph, and W is the weighting factor defined in  
3 subparagraph (6) of this paragraph;

4 (3) For other annuities with cash settlement options and  
5 guaranteed interest contracts with cash settlement options,  
6 valued on an issue year basis, except as stated in subparagraph (2)  
7 [above] of this paragraph, the formula for life insurance stated in  
8 subparagraph (1) [above] of this paragraph shall apply to annuities  
9 and guaranteed interest contracts with [guaranteed] guarantee  
10 durations in excess of 10 years and the formula for single  
11 [stipulated payment] premium immediate annuities stated in  
12 subparagraph (2) [above] of this paragraph shall apply to annuities  
13 and guaranteed interest contracts with [guaranteed] guarantee  
14 durations of 10 years or less;

15 (4) For other annuities with no cash settlement options and for  
16 guaranteed interest contracts with no cash settlement options,  
17 the formula for single [stipulated payment] premium immediate  
18 annuities stated in subparagraph (2) [above] of this paragraph  
19 shall apply; and

20 (5) For other annuities with cash settlement options and  
21 guaranteed interest contracts with cash settlement options,  
22 valued on a change in fund basis, the formula for single  
23 [stipulated payment] premium immediate annuities stated in  
24 subparagraph (2) [above] of this paragraph shall apply.

25 However, if the calendar year statutory valuation interest rate  
26 for any life insurance policies issued in any calendar year  
27 determined without reference to this sentence differs from the  
28 corresponding actual rate for similar policies issued in the  
29 immediately preceding calendar year by less than 1/2 of 1%, the  
30 calendar year statutory valuation interest rate for such life  
31 insurance policies shall be equal to the corresponding actual rate  
32 for the immediately preceding calendar year. For purposes of  
33 applying the immediately preceding sentence, the calendar year  
34 statutory valuation interest rate for life insurance policies issued  
35 in a calendar year shall be determined for 1980 (using the  
36 reference interest rate defined for 1979) and shall be determined  
37 for each subsequent calendar year, notwithstanding when the  
38 provisions of subsection h. of [section] N.J.S.17B:25-19, the  
39 standard nonforfeiture law for life insurance become operative;

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

42  
43 **SCHEDULE A**

44 **Weighting Factors for Life Insurance:**

45 <b>Guarantee</b>		
46 <b>Duration</b>		<b>Weighting</b>
47 <b>(Years)</b>		<b>Factors</b>
48		
49	10 or less	.50
50	More than 10, but not more than 20	.45
51	More than 20	.35

52 For life insurance, the guarantee duration is the maximum  
53 number of years the life insurance can remain in force on a basis  
54 guaranteed in the policy or under options to convert to plans of

1 life insurance with premium rates or nonforfeiture values or both  
2 which are guaranteed in the original policy;

3

4

## SCHEDULE B

5 Weighting factor for single [stipulated payment] premium  
6 immediate annuities and for annuity benefits involving life  
7 contingencies arising from other annuities with cash settlement  
8 options and guaranteed interest contracts with cash settlement  
9 options:

10

.80

11

## SCHEDULE C

12 Weighting factors for other annuities and for guaranteed  
13 interest contracts, except as stated in Schedule B above, shall be  
14 as specified in Tables A, B and C below, according to the rules  
15 and definitions in D, E and F below:

16

TABLE A

17 For annuities and guaranteed interest contracts valued on an  
18 issue year basis:

19 Guarantee	20 Weighting Factor		
	21 for Plan Type		
22 Duration	A	B	C
23 (Years)			
24 5 or less:	.80	.60	.50
25 More than 5, but not more than 10:	.75	.60	.50
26 More than 10, but not more than 20:	.65	.50	.45
27 More than 20:	.45	.35	.35

28

29

TABLE B

30 For annuities and guaranteed	31 Plan Type		
	A	B	C
32 interest contracts valued on a change			
33 in fund basis, the factors shown in			
34 Table A above increased by:	.15	.25	.05

35

36

TABLE C

37 For annuities and guaranteed interest	38 Plan Type		
	A	B	C
39 contracts valued on an issue year basis			
40 (other than those with no cash settlement			
41 options) which do not guarantee interest on			
42 considerations received more than one year			
43 after issue or purchase and for annuities			
44 and guaranteed interest contracts valued			
45 on a change in fund basis which do not			
46 guarantee interest rates on considerations			
47 received more than 12 months beyond the			
48 valuation date, the factors shown in Table			
49 A or derived in Table B increased by:	.05	.05	.05

50

51

52

53

54

Rule D. For other annuities with cash settlement options and  
guaranteed interest contracts with cash settlement options, the  
guarantee duration is the number of years for which the contract  
guarantees interest rates in excess of the calendar year statutory  
valuation interest rate for life insurance policies with guarantee



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

6 Rule E. Plan type as used in the above tables is defined as  
7 follows:

8 Plan Type A: At any time policyholder may withdraw funds  
9 only: (1) with an adjustment to reflect changes in interest rates  
10 or asset values since receipt of the funds by the insurer, or (2)  
11 without such [adjustments] adjustment but in installments over  
12 five years or more, or (3) as an immediate life annuity, or (4) no  
13 withdrawal permitted.

14 Plan Type B: Before expiration of the interest rate guarantee,  
15 policyholder may withdraw funds only: (1) with an adjustment to  
16 reflect changes in interest rates or asset values since receipt of  
17 the funds by the insurer, or (2) without such adjustment but in  
18 installments over five years or more, or (3) no withdrawal  
19 permitted. At the end of interest rate guarantee, funds may be  
20 withdrawn without such adjustment in a single sum or  
21 installments over less than five years.

22 Plan Type C: Policyholder may withdraw funds before  
23 expiration of interest rate guarantee in a single sum or  
24 installments over less than five years either: (1) without  
25 adjustment to reflect changes in interest [rate] rates or asset  
26 values since receipt of the funds by the insurer, or (2) subject  
27 only to a fixed surrender charge stipulated in the contract as a  
28 percentage of the fund.

29 Rule F. An insurer may elect to value guaranteed interest  
30 contracts with cash settlement options and annuities with cash  
31 settlement options on either an issue year basis or on a change in  
32 fund basis. Guaranteed interest contracts with no cash  
33 settlement options and other annuities with no cash settlement  
34 options must be valued on an issue year basis. As used in this  
35 paragraph (x) of subsection a., an issue year basis of valuation  
36 refers to a valuation basis under which the interest rate used to  
37 determine the minimum valuation standard for the entire  
38 duration of the annuity or guaranteed interest contract is the  
39 calendar year valuation interest rate for the year of issue or year  
40 of purchase of the annuity or guaranteed interest contract, and  
41 the change in fund basis of valuation refers to a valuation basis  
42 under which the interest rate used to determine the minimum  
43 valuation standard applicable to each change in the fund held  
44 under the annuity or guaranteed interest contract is the calendar  
45 year valuation interest rate for the year of the change in the fund;

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

48 For all life insurance, the lesser of the average over a period of  
49 36 months and the average over a period of 12 months, ending on  
50 June 30 of the calendar year next preceding the year of issue, of  
51 [Moody's Corporate Bond Yield Average--Monthly Average  
52 Corporates] the Monthly Average of the Composite Yield on  
53 Seasoned Corporate Bonds, as published by Moody's Investors  
54 Service, Inc.

1 For single [stipulated payment] premium immediate annuities  
2 and for annuity benefits involving life contingencies arising from  
3 other annuities with cash settlement options and guaranteed  
4 interest contracts with cash settlement options, the average over  
5 a period of 12 months, ending on June 30 of the calendar year of  
6 issue or year of purchase, of [Moody's Corporate Bond Yield  
7 Average--Monthly Average Corporates] the Monthly Average of  
8 the Composite Yield on Seasoned Corporate Bonds, as published  
9 by Moody's Investors Service, Inc.

10 For other annuities with cash settlement options and  
11 guaranteed interest contracts with cash settlement options,  
12 valued on a year of issue basis, except as stated above, with  
13 [guaranteed] guarantee duration in excess of 10 years, the lesser  
14 of the average over a period of 36 months and the average over a  
15 period of 12 months, ending on June 30 of the calendar year of  
16 issue or purchase, of [Moody's Corporate Bond Yield  
17 Average--Monthly Average Corporates] the Monthly Average of  
18 the Composite Yield on Seasoned Corporate Bonds, as published  
19 by Moody's Investors Service, Inc.

20 For other annuities with cash settlement options and  
21 guaranteed interest contracts with cash settlement options,  
22 valued on a year of issue basis, except as stated above, with  
23 [guaranteed] guarantee duration of 10 years or less, the average  
24 over a period of 12 months, ending on June 30 of the calendar  
25 year of issue or purchase, of [Moody's Corporate Bond Yield  
26 Average--Monthly Average Corporates] the Monthly Average of  
27 the Composite Yield on Seasoned Corporate Bonds, as published  
28 by Moody's Investors Service, Inc.

29 For other annuities with no cash settlement options and for  
30 guaranteed interest contracts with no cash settlement options,  
31 the average over a period of 12 months, ending on June 30 of the  
32 calendar year of issue or purchase, of [Moody's Corporate Bond  
33 Yield Average--Monthly Average Corporates] the Monthly  
34 Average of the Composite Yield on Seasoned Corporate Bonds, as  
35 published by Moody's Investors Service, Inc.

36 For other annuities with cash settlement options and  
37 guaranteed interest contracts with cash settlement options,  
38 valued on a change in [funds] fund basis, except as stated above,  
39 the average over a period of 12 months, ending on June 30 of the  
40 calendar year of [a] the change in the fund, of [Moody's  
41 Corporate Bond Yield Average--Monthly Average Corporates]  
42 the Monthly Average of the Composite Yield on Seasoned  
43 Corporate Bonds, as published by Moody's Investors Service, Inc.

44 In the event that [Moody's Corporate Bond Yield  
45 Average--Monthly Average Corporates] the Monthly Average of  
46 the Composite Yield on Seasoned Corporate Bonds is no longer  
47 published by Moody's Investors Service, Inc., or in the event that  
48 the National Association of Insurance Commissioners determines  
49 that [Moody's Corporate Bond Yield Average--Monthly Average  
50 Corporates] the Monthly Average of the Composite Yield on  
51 Seasoned Corporate Bonds, as published by Moody's Investors  
52 Service, Inc., is no longer appropriate for the determination of  
53 the reference interest rate, then an alternative method for  
54 determination of the reference interest rate, which is adopted by

1 the National Association of Insurance Commissioners and  
2 approved by regulation promulgated by the commissioner, may be  
3 substituted.

4 b. Except as otherwise provided in subsections e. and f. of this  
5 section, reserves according to the commissioner's reserve  
6 valuation method, for the life insurance and endowment benefits  
7 of policies providing for a uniform amount of insurance and  
8 requiring the payment of uniform premiums, shall be the excess,  
9 if any, of the present value, at the date of valuation, of such  
10 future guaranteed benefits provided for by such policies, over the  
11 then present value of any future modified net premiums  
12 therefor. The modified net premiums for any such policy shall be  
13 such uniform percentage of the respective contract premiums for  
14 such benefits that the present value, at the date of issue of the  
15 policy, of all such modified net premiums shall be equal to the  
16 sum of the then present value of such benefits provided for by the  
17 policy and the excess of (A) over (B), as follows:

18 (A) A net level annual premium equal to the present value, at  
19 the date of issue, of such benefits provided for after the first  
20 policy year, divided by the present value, at the date of issue, of  
21 an annuity of one per annum payable on the first and each  
22 subsequent anniversary of such policy on which a premium falls  
23 due; provided, however, that such net level annual premium shall  
24 not exceed the net level annual premium on the 19-year premium  
25 whole life plan for insurance of the same amount at an age one  
26 year higher than the age at issue of such policy.

27 (B) A net one-year term premium for such benefits provided  
28 for in the first policy year.

29 Provided that for any life insurance [policies] policy issued on  
30 or after January 1, 1985 for which the contract premium in the  
31 first policy year exceeds that of the second year and for which no  
32 comparable additional benefit is provided in the first year for  
33 such excess and which provides an endowment benefit or a cash  
34 surrender value or a combination thereof in an amount greater  
35 than such excess premium, the reserve according to the  
36 commissioner's reserve valuation method as of any policy  
37 anniversary occurring on or before the assumed ending date  
38 defined herein as the first policy anniversary on which the sum of  
39 any endowment benefit and any cash surrender value then  
40 available is greater than such excess premium shall, except as  
41 otherwise provided in subsection e., be the greater of the reserve  
42 as of such policy anniversary calculated as described in the first  
43 paragraph of this subsection and the reserve as of such policy  
44 anniversary calculated as described in that paragraph, but with (i)  
45 the value defined in subparagraph (A) of that paragraph being  
46 reduced by 15% of the amount of such excess first year premium,  
47 (ii) all present values of benefits and premiums being determined  
48 without reference to premiums or benefits provided for by the  
49 policy after the assumed ending date, (iii) the policy being  
50 assumed to mature on such date as an endowment, and (iv) the  
51 cash surrender value provided on such date being considered as an  
52 endowment benefit. In making the above comparison the  
53 mortality and interest bases stated in subsection a. of this section  
54 shall be used.

1 Reserves according to the commissioner's reserve valuation  
2 method for (i) life insurance policies providing for a varying  
3 [amounts] amount of insurance or requiring the payment of  
4 varying premiums, (ii) group annuity and pure endowment  
5 contracts purchased [in connection with] under a retirement  
6 [plans] plan or [plans] plan of deferred compensation, established  
7 or maintained by [or for one or more employers] an employer  
8 (including [partnerships] a partnership or sole [proprietorships]  
9 proprietorship), or by an employee [organizations] organization,  
10 or [any combination thereof] by both, other than [plans] a plan  
11 providing individual retirement accounts or individual retirement  
12 annuities under section 408 of the Internal Revenue Code of 1986,  
13 as now or hereafter amended, (iii) disability and accidental death  
14 benefits in all policies and contracts, and (iv) all other benefits,  
15 except life insurance and endowment benefits in life insurance  
16 policies and benefits provided by all other annuity and pure  
17 endowment contracts, shall be calculated by a method consistent  
18 with the principles of this subsection b. [, except that any extra  
19 premiums charged because of impairments or special hazards  
20 shall be disregarded in the determination of modified net  
21 premiums.]

22 c. In no event shall an insurer's aggregate reserves for all life  
23 insurance policies, excluding disability and accidental death  
24 benefits, be less than the aggregate reserves calculated in  
25 accordance with the methods set forth in subsections b., e., f.  
26 and g. and the mortality table or tables and rate or rates of  
27 interest used in calculating nonforfeiture benefits for such  
28 policies. Reserves for any category of policies, contracts or  
29 benefits as established by the commissioner shall not be  
30 calculated according to any standards which produce smaller  
31 aggregate reserves for such category than the corresponding  
32 aggregate values of nonforfeiture benefits available as of the  
33 valuation date. In no event shall the aggregate reserves for all  
34 policies, contracts and benefits be less than the aggregate  
35 reserves determined by a qualified actuary to be necessary to  
36 render the opinion required pursuant to section 2 of P.L. , c.  
37 (C. )(pending in the Legislature as this bill).

38 d. Reserves for any category of policies, contracts or benefits  
39 as established by the commissioner may be calculated, at the  
40 option of the insurer, according to any standards which produce  
41 greater aggregate reserves for such category than those  
42 calculated according to the minimum standard herein provided.  
43 An insurer which adopts any standard of valuation producing  
44 greater aggregate reserves than those calculated according to the  
45 minimum standard pursuant to this section may, with the  
46 approval of the commissioner, adopt any lower standard of  
47 valuation, but not lower than the minimum standard pursuant to  
48 this section herein provided; provided, however, that, for  
49 purposes of this subsection, the holding of additional reserves  
50 previously determined by a qualified actuary to be necessary to  
51 render the opinion required pursuant to section 2 of P.L. , c.  
52 (C. )(pending in the Legislature as this bill) shall not be  
53 deemed to be the adoption of a higher standard of valuation.

54 e. If in any contract year the gross premium charged by any

1 life insurer on any policy or contract [to which this section  
2 applies] is less than the valuation net premium for the policy or  
3 contract calculated by the method used in calculating the reserve  
4 thereon but using the minimum valuation standards of mortality  
5 and rate of interest, the minimum reserve required for such  
6 policy or contract [is] shall be the greater of either the reserve  
7 calculated according to the mortality table, rate of interest, and  
8 method actually used for such policy or contract, or the reserve  
9 calculated by the method actually used for such policy or  
10 contract but using the minimum valuation standards of mortality  
11 and rate of interest and replacing the valuation net premium by  
12 the actual gross premium in each contract year for which the  
13 valuation net premium exceeds the actual gross premium. [At  
14 the option of the insurer and with the consent of the  
15 commissioner, the minimum reserve defined in this subsection e.  
16 may be determined for each policy or contract except one issued  
17 on the substandard basis by substituting, for the actual gross  
18 premium on the policy or contract, the average gross premium  
19 charged by the insurer for all policies or contracts classified  
20 other than substandard which have the same valuation  
21 characteristics apart from variation in premium on account of  
22 differences in mortality experience.]

23 The minimum valuation standards of mortality and rate of  
24 interest referred to in this subsection are those standards stated  
25 in subsection a. of this section.

26 Provided that for any life insurance policy issued on or after  
27 January 1, 1985 for which the gross premium in the first policy  
28 year exceeds that of the second year and for which no  
29 comparable additional benefit is provided in the first year for  
30 such excess and which provides an endowment benefit or a cash  
31 surrender value or a combination thereof in an amount greater  
32 than such excess premium, the foregoing provisions of this  
33 subsection e. shall be applied as if the method actually used in  
34 calculating the reserve for such policy were the method described  
35 in subsection b., notwithstanding the provisions of the second  
36 paragraph of such subsection b. The minimum reserve at each  
37 policy anniversary of such a policy shall be the greater of the  
38 minimum reserve calculated in accordance with subsection b.,  
39 including the second paragraph of that subsection, and the  
40 minimum reserve calculated in accordance with this subsection e.

41 f. This subsection shall apply to all annuity and pure  
42 endowment contracts other than group annuity and pure  
43 endowment contracts purchased [in connection with] under a  
44 retirement [plans] plan or [plans] plan of deferred compensation,  
45 established or maintained by [or for one or more employers] an  
46 employer (including [partnerships] a partnership or sole  
47 [proprietorships] proprietorship), or by an employee  
48 [organizations] organization, or [any combination thereof, except  
49 such plans] by both, other than a plan providing individual  
50 retirement accounts or individual retirement annuities under  
51 section 408 of the Internal Revenue Code of 1986, as now or  
52 hereafter amended.

53 Reserves according to the commissioner's annuity reserve  
54 method for benefits under annuity or pure endowment contracts,

1 excluding any disability and accidental death benefits in such  
2 contracts, shall be the greatest of the respective [excess]  
3 excesses of the present values, at the date of valuation, of the  
4 future guaranteed benefits, including guaranteed nonforfeiture  
5 benefits, provided for by such contracts at the end of each  
6 respective contract year, over the present value, at the date of  
7 valuation, of any future valuation considerations derived from  
8 future gross considerations, required by the terms of such  
9 contract, that become payable prior to the end of such respective  
10 contract year. The future guaranteed benefits shall be  
11 determined by using the mortality table, if any, and the interest  
12 rate, or rates, specified in such contracts for determining  
13 guaranteed benefits. The valuation considerations are the  
14 portions of the respective gross considerations applied under the  
15 terms of such contracts to determine nonforfeiture values.

16 g. In the case of any plan of life insurance which provides for  
17 future premium determination, the amounts of which are to be  
18 determined by the insurer based on then estimates of future  
19 experience, or in the case of any plan of life insurance or annuity  
20 which is of such a nature that the minimum reserves cannot be  
21 determined by the methods described in subsections b., e., and f.  
22 of this section, the reserves which are held under any such plan  
23 [must] shall:

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

26 (ii) be computed by a method which is consistent with the  
27 principles of this standard valuation law, as determined by  
28 regulations promulgated by the commissioner.

29 (cf: P.L.1987, c.14, s.1)

30 2. (New section) a. Every insurer authorized to transact life,  
31 health or annuity business and every fraternal benefit society  
32 doing business in this State shall annually submit the opinion of a  
33 qualified actuary as to whether the reserves and related actuarial  
34 items held in support of the policies and contracts specified by  
35 the commissioner by regulation are: computed appropriately;  
36 based on assumptions which satisfy contractual provisions; and  
37 consistent with prior reported amounts and comply with  
38 applicable laws of this State. The commissioner shall define by  
39 regulation the specifics of this opinion and add such other items  
40 deemed to be necessary to its scope.

41 b. (1) Every insurer authorized to transact life, health or  
42 annuity business and every fraternal benefit society, except as  
43 exempted by the commissioner by regulation, shall also annually  
44 include in the opinion required pursuant to subsection a. of this  
45 section, an opinion of the same qualified actuary as to whether  
46 the reserves and related actuarial items held in support of the  
47 policies and contracts specified by the commissioner by  
48 regulation, when considered in light of the assets held by the  
49 insurer or society with respect to the reserves and related  
50 actuarial items, including, but not limited to, the investment  
51 earnings on the assets and the considerations anticipated to be  
52 received and retained under the policies and contracts, make  
53 adequate provision for the insurer's or society's obligations  
54 under the policies and contracts, including, but not limited to, the

1 benefits under and expenses associated with the policies and  
2 contracts.

3 (2) The commissioner may provide by regulation for a  
4 transition period for establishing any higher reserves which the  
5 qualified actuary may deem necessary in order to render the  
6 opinion required by this section.

7 c. Each opinion required pursuant to subsection b. of this  
8 section shall be governed by the following provisions:

9 (1) A memorandum, in form and substance acceptable to the  
10 commissioner as specified by regulation, shall be prepared to  
11 support each actuarial opinion.

12 (2) If the insurer or society fails to provide a supporting  
13 memorandum at the request of the commissioner within a period  
14 specified by regulation, or the commissioner determines that the  
15 supporting memorandum provided by the insurer or society fails  
16 to meet the standards prescribed by regulation or is otherwise  
17 unacceptable to the commissioner, the commissioner may engage  
18 a qualified actuary at the expense of the insurer or society to  
19 review the opinion and the basis for the opinion and prepare such  
20 supporting memorandum as is required by the commissioner.

21 d. Every opinion shall be governed by the following provisions:

22 (1) The opinion shall be submitted with the annual statement  
23 reflecting the valuation of reserves for each year ending on or  
24 after December 31, 1995.

25 (2) The opinion shall apply to all policies or contracts in force,  
26 including individual and group health insurance plans, in form and  
27 substance acceptable to the commissioner as specified by  
28 regulation.

29 (3) The opinion shall be based on standards adopted from time  
30 to time by the Actuarial Standards Board and on such additional  
31 standards as the commissioner may by regulation prescribe.

32 (4) In the case of an opinion required to be submitted by a  
33 foreign or alien insurer or fraternal benefit society, the  
34 commissioner may accept the opinion filed by that insurer or  
35 society with the insurance supervisory official of another state or  
36 jurisdiction if the commissioner determines that the opinion  
37 reasonably meets the requirements applicable to an insurer or  
38 society domiciled in this State.

39 (5) For the purpose of this section, "qualified actuary" means  
40 a member in good standing of the American Academy of  
41 Actuaries who meets the requirements set forth in those  
42 regulations.

43 (6) Except in cases of fraud or willfull misconduct, the  
44 qualified actuary shall not be liable for damages to any person,  
45 other than the insurer, the fraternal benefit society and the  
46 commissioner, for any act, error, omission, decision or conduct  
47 with respect to the actuary's opinion.

48 (7) Disciplinary action by the commissioner against the  
49 insurer, fraternal benefit society or the qualified actuary shall be  
50 defined in regulation by the commissioner.

51 (8) Any memorandum in support of the opinion, and any other  
52 material provided by the insurer or fraternal benefit society to  
53 the commissioner in connection therewith, shall be kept  
54 confidential by the commissioner and shall not be made public

1 and shall not be subject to subpoena, other than for the purpose  
2 of defending an action seeking damages from any person by  
3 reason of any action required by this section or by regulations  
4 promulgated hereunder; provided, however, that the memorandum  
5 or other material may otherwise be released by the commissioner  
6 (a) with the written consent of the insurer or fraternal benefit  
7 society or (b) to the American Academy of Actuaries upon  
8 request stating that the memorandum or other material is  
9 required for the purpose of professional disciplinary proceedings  
10 and setting forth procedures satisfactory to the commissioner for  
11 preserving the confidentiality of the memorandum or other  
12 material. Once any portion of the confidential memorandum is  
13 cited by the insurer or fraternal benefit society in its marketing  
14 or is cited before any governmental agency other than a state  
15 insurance department or is released by the insurer or fraternal  
16 benefit society to the news media, all portions of the confidential  
17 memorandum shall no longer be confidential.

18 3. N.J.S.17B:19-6 and 17B:19-9 are repealed.

19 4. This act shall take effect immediately.

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#### 22 STATEMENT

23

24 This bill updates New Jersey's standard valuation law. The  
25 standard valuation law provides detailed procedures by which life  
26 insurers establish reserves for the payment of obligations under  
27 life insurance policies, pure endowment contracts and annuity  
28 contracts. Reserves are the monies set aside by the insurer to  
29 pay expected obligations under those policies and contracts. The  
30 law recognizes that for these types of policies or contracts,  
31 payment on the obligations may not become due for many years.  
32 During that time, insurers receive investment income on the  
33 premium received for a policy or contract during the policy or  
34 contract period. The statutory standards recognize this and  
35 specify the interest rate, as well as the various mortality tables  
36 and valuation method, to be utilized based on the kind of policy  
37 or contract and the date it was issued.

38 The bill requires all life insurers and fraternal benefit societies  
39 to submit an opinion of a qualified actuary as to whether the  
40 reserves and related actuarial items held in support of policies  
41 are computed appropriately and sets forth the requirements  
42 relating to those opinions.

43 The bill provides that the aggregate reserves established by the  
44 insurer for all policies and contracts may not be less than the  
45 aggregate reserves determined by a qualified actuary to be  
46 necessary to render the required opinion.

47 The bill provides that establishment of additional reserves,  
48 determined as necessary by a qualified actuary, does not  
49 constitute the adoption of a higher standard of valuation.

50 The bill revises the interest rate to be utilized for single  
51 premium pure endowment contracts issued prior to January 1,  
52 1977 from 6% to 4%.

53 Finally, the bill makes certain technical changes, to conform  
54 current law to proper form.



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3 Concerns the valuation of reserve liabilities for life and health

4 insurance policies.

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SENATE COMMERCE COMMITTEE

STATEMENT TO

SENATE, No. 2320

STATE OF NEW JERSEY

DATED: NOVEMBER 27, 1995

The Senate Commerce Committee reports favorably Senate, No. 2320.

This bill updates New Jersey's standard valuation law. The standard valuation law provides detailed procedures by which life insurers establish reserves for the payment of obligations under life insurance policies, pure endowment contracts and annuity contracts. Reserves are the monies set aside by the insurer to pay expected obligations under those policies and contracts. The law recognizes that for these types of policies or contracts, payment on the obligations may not become due for many years. During that time, insurers receive investment income on the premium received for a policy or contract during the policy or contract period. The statutory standards recognize this and specify the interest rate, as well as the various mortality tables and valuation method, to be utilized based on the kind of policy or contract and the date it was issued.

The bill requires all insurers authorized to transact life, health or annuity business and fraternal benefit societies to submit an opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of policies or contracts are computed appropriately and sets forth the requirements relating to those opinions. This opinion must also contain an opinion by the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts, when considered in light of the insurer's or society's assets, make adequate provision for the insurer's or society's obligations under the policies and contracts. Each actuarial opinion must be supported by a memorandum. If the insurer or society fails to provide the required memorandum or the memorandum is unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the insurer or society to review the opinion and the basis for the opinion and prepare such supporting memorandum as is required by the commissioner.

The bill provides that the aggregate reserves established by the insurer for all life, pure endowment and annuity policies and contracts may not be less than the aggregate reserves determined by a qualified actuary to be necessary to render the required opinion.

The bill provides that establishment of additional reserves, previously determined as necessary by a qualified actuary, does not constitute the permanent adoption of a higher standard of valuation in regard to life, pure endowment and annuity policies and contracts.

The bill revises the interest rate to be utilized for single premium pure endowment contracts issued prior to January 1, 1977 from 6% to 4%.

Finally, the bill makes certain technical changes to conform current law to proper form and repeals N.J.S.17B:19-6 (Accepting valuation of other states) and N.J.S.17B:19-9 (Approved Standard Ordinary Mortality Table) because they are otherwise provided for in law.