



Bill Number: S.B. 1149

Reagan Floor Amendment

Reference to: the FIN committee amendment

Amendment drafted by:

Legislative Council – Michele Hanisberg

FLOOR AMENDMENT EXPLANATION

The Reagan Floor Amendment does the following:

- **Outlines the method for determining minimum nonforfeiture standards**
- **Provides the nonforfeiture interest rate**
- **Defines terms**
- **Makes technical changes**

Amendment explanation prepared by Bill Ritz

2/27/2013

REAGAN FLOOR AMENDMENT
SENATE AMENDMENTS TO S.B. 1149
(Reference to FIN amendment)

1 Page 1, line 14, strike "E" insert "F"

2 Page 2, line 26, strike "OR AS SUBSEQUENTLY AMENDED"

3 Page 3, lines 5 and 6, strike "ON OR AFTER THE OPERATIVE DATE OF SECTION 20-1231
4 AND"

5 Page 8, between lines 15 and 16, insert:

6 "5. FOR THE PURPOSES OF THIS SUBSECTION, "QUALIFIED ACTUARY" MEANS A
7 MEMBER IN GOOD STANDING OF THE AMERICAN ACADEMY OF ACTUARIES WHO MEETS THE
8 REQUIREMENTS SET FORTH BY THE DIRECTOR."

9 Page 24, line 15, strike "~~qualified~~ APPOINTED" insert "qualified"

10 Page 33, line 6, strike "IF" insert a period

11 Page 35, line 20, strike the quotation mark

12 Between lines 20 and 21, insert:

13 Sec. 2. Section 20-1231.01, Arizona Revised Statutes, is amended to
14 read:

15 20-1231.01. Standard nonforfeiture law for life insurance;
16 table for calculating adjusted premiums;
17 definitions

18 Except as provided in paragraph 7 of this section, on a policy issued
19 on or after the operative date as provided in this section:

20 1. The adjusted premiums for any policy shall be calculated on an
21 annual basis and shall be such a uniform percentage of the respective
22 premiums specified in the policy for each policy year, excluding amounts
23 payable as extra premiums to cover impairments or special hazards and also
24 excluding any uniform annual contract charge or policy fee specified in the
25 policy in a statement of the method to be used in calculating the cash
26 surrender values and paid-up nonforfeiture benefits, that the present value,

1 at the date of issue of the policy, of all adjusted premiums shall be equal
2 to the sum of:

3 (a) The then present value of the future guaranteed benefits provided
4 for by the policy.

5 (b) One per cent of either the amount of insurance, if the insurance
6 is uniform in amount, or the average amount of insurance at the beginning of
7 each of the first ten policy years.

8 (c) One hundred twenty-five per cent of the nonforfeiture net level
9 premium. In applying the percentage specified in subdivision (c) of this
10 paragraph no nonforfeiture net level premium shall be deemed to exceed four
11 per cent of either the amount of insurance, if the insurance is uniform in
12 amount, or the average amount of insurance at the beginning of each of the
13 first ten policy years. The date of issue of a policy for the purpose of
14 this section is the date as of which the rated age of the insured is
15 determined.

16 2. The nonforfeiture net level premium is equal to the present value,
17 at the date of issue of the policy, of the guaranteed benefits provided for
18 by the policy divided by the present value, at the date of issue of the
19 policy, of an annuity of one per annum payable on the date of issue of the
20 policy and on each anniversary of the policy on which a premium falls due.

21 3. In the case of policies ~~which~~ THAT cause on a basis guaranteed in
22 the policy unscheduled changes in benefits or premiums, or ~~which~~ THAT provide
23 an option for changes in benefits or premiums other than a change to a new
24 policy, the adjusted premiums and present values shall initially be
25 calculated on the assumption that future benefits and premiums do not change
26 from those stipulated at the date of issue of the policy. At the time of
27 such a change in the benefits or premiums, the future adjusted premiums,
28 nonforfeiture net level premiums and present values shall be recalculated on
29 the assumption that future benefits and premiums do not change from those
30 stipulated by the policy immediately after the change.

31 4. Except as otherwise provided in paragraph 7 of this section, the
32 recalculated future adjusted premiums for any such policy are the uniform

1 percentage of the respective future premiums specified in the policy for each
2 policy year, excluding amounts payable as extra premiums to cover impairments
3 and special hazards and also excluding any uniform annual contract charge or
4 policy fee specified in the policy in a statement of the method to be used in
5 calculating the cash surrender values and paid-up nonforfeiture benefits,
6 that the present value, at the time of change to the newly defined benefits
7 or premiums, of all such future adjusted premiums shall be equal to the
8 excess of the sum of the then present value of the then future guaranteed
9 benefits provided for by the policy and the additional expense allowance, if
10 any, over the then cash surrender value, if any, or present value of any
11 paid-up nonforfeiture benefit under the policy.

12 5. The additional expense allowance, at the time of the change to the
13 newly defined benefits or premiums, is the sum of:

14 (a) One per cent of the excess, if positive, of the average amount of
15 insurance at the beginning of each of the first ten policy years subsequent
16 to the change over the average amount of insurance prior to the change at the
17 beginning of each of the first ten policy years subsequent to the time of the
18 most recent previous change or, if there has been no previous change, the
19 date of issue of the policy.

20 (b) One hundred twenty-five per cent of the increase, if positive, in
21 the nonforfeiture net level premium.

22 6. The recalculated nonforfeiture net level premium is equal to the
23 result obtained by dividing (a) by (b) where:

24 (a) (a) Equals the sum of:

25 (i) The nonforfeiture net level premium applicable prior to the change
26 times the present value of an annuity of one per annum payable on each
27 anniversary of the policy on or subsequent to the date of the change on which
28 a premium would have fallen due had the change not occurred.

29 (ii) The present value of the increase in future guaranteed benefits
30 provided for by the policy.

1 (b) (b) Equals the present value of an annuity of one per annum
2 payable on each anniversary of the policy on or subsequent to the date of
3 change on which a premium falls due.

4 7. Notwithstanding any other provisions of this section, in the case
5 of a policy issued on a substandard basis ~~which~~ THAT provides reduced graded
6 amounts of insurance so that, in each policy year, the policy has the same
7 tabular mortality cost as an otherwise similar policy issued on the standard
8 basis ~~which~~ THAT provides higher uniform amounts of insurance, adjusted
9 premiums and present values for the substandard policy may be calculated as
10 if it were issued to provide higher uniform amounts of insurance on the
11 standard basis.

12 8. All adjusted premiums and present values referred to in this
13 section shall, for all policies of ordinary insurance, be calculated on the
14 basis of either the commissioners 1980 standard ordinary mortality table, or
15 at the election of the insurer for any one or more specified plans of life
16 insurance, the commissioners 1980 standard ordinary mortality table with ten
17 year select mortality factors, for all policies of industrial insurance, be
18 calculated on the basis of the commissioners 1961 standard industrial
19 mortality table, and for all policies issued in a particular calendar year,
20 be calculated on the basis of a rate of interest not exceeding the
21 nonforfeiture interest rate for policies issued in that calendar
22 year. However:

23 (a) At the option of the insurer, calculations for all policies issued
24 in a particular calendar year may be made on the basis of a rate of interest
25 not exceeding the nonforfeiture interest rate, as ~~defined~~ PRESCRIBED in this
26 section, for policies issued in the immediately preceding calendar year.

27 (b) Under any paid-up nonforfeiture benefit, including any paid-up
28 dividend additions, any cash surrender value available, whether or not
29 required by section 20-1231, subsection B, shall be calculated on the basis
30 of the mortality table and rate of interest used in determining the amount of
31 such paid-up nonforfeiture benefit and paid-up dividend additions, if any.

1 (c) An insurer may calculate the amount of any guaranteed paid-up
2 nonforfeiture benefit including any paid-up additions under the policy on the
3 basis of an interest rate no lower than that specified in the policy for
4 calculating cash surrender values.

5 (d) In calculating the present value of any paid-up term insurance
6 with accompanying pure endowment, if any, offered as a nonforfeiture benefit,
7 the rates of mortality assumed may be not more than those shown in the
8 commissioners 1980 extended term insurance table for policies of ordinary
9 insurance and not more than the commissioners 1961 industrial extended term
10 insurance table for policies of industrial insurance.

11 (e) For insurance issued on a substandard basis, the calculation of
12 any such adjusted premiums and present values may be based on appropriate
13 modifications of the tables prescribed in this section and section 20-1231.

14 (f) FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION
15 MANUAL, any COMMISSIONERS STANDARD ordinary mortality tables, adopted after
16 1980 by the national association of insurance commissioners, that are
17 approved by the director for use in determining the minimum nonforfeiture
18 standard may be substituted for the commissioners 1980 standard ordinary
19 mortality table with or without ten year select mortality factors or for the
20 commissioners 1980 extended term insurance table. FOR POLICIES ISSUED ON OR
21 AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THE VALUATION MANUAL SHALL
22 PROVIDE THE COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN DETERMINING THE
23 MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR THE COMMISSIONERS
24 1980 STANDARD ORDINARY MORTALITY TABLE WITH OR WITHOUT TEN-YEAR SELECT
25 MORTALITY FACTORS OR FOR THE COMMISSIONERS 1980 EXTENDED TERM INSURANCE
26 TABLE. IF THE DIRECTOR APPROVES BY RULE ANY COMMISSIONERS STANDARD ORDINARY
27 MORTALITY TABLE ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE
28 COMMISSIONERS FOR USE IN DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR
29 POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THAT
30 MINIMUM NONFORFEITURE STANDARD SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD
31 PROVIDED BY THE VALUATION MANUAL.

1 (g) FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION
2 MANUAL, any industrial mortality tables, adopted after 1980 by the national
3 association of insurance commissioners, that are approved by the director for
4 use in determining the minimum nonforfeiture standard may be substituted for
5 the commissioners 1961 standard industrial mortality table or the
6 commissioners 1961 industrial extended term insurance table. FOR POLICIES
7 ISSUED ON OR AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THE VALUATION
8 MANUAL SHALL PROVIDE THE COMMISSIONERS STANDARD MORTALITY TABLE FOR USE IN
9 DETERMINING THE MINIMUM NONFORFEITURE STANDARD THAT MAY BE SUBSTITUTED FOR
10 THE COMMISSIONERS 1961 STANDARD INDUSTRIAL MORTALITY TABLE OR THE
11 COMMISSIONERS 1961 INDUSTRIAL EXTENDED TERM INSURANCE TABLE. IF THE DIRECTOR
12 APPROVES BY RULE ANY COMMISSIONERS STANDARD INDUSTRIAL MORTALITY TABLE
13 ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS FOR USE IN
14 DETERMINING THE MINIMUM NONFORFEITURE STANDARD FOR POLICIES ISSUED ON OR
15 AFTER THE OPERATIVE DATE OF THE VALUATION MANUAL, THAT MINIMUM NONFORFEITURE
16 STANDARD SUPERSEDES THE MINIMUM NONFORFEITURE STANDARD PROVIDED BY THE
17 VALUATION MANUAL.

18 9. THE NONFORFEITURE INTEREST RATE IS AS FOLLOWS:

19 (a) FOR POLICIES ISSUED BEFORE THE OPERATIVE DATE OF THE VALUATION
20 MANUAL, the nonforfeiture interest rate per annum for any policy issued in a
21 particular calendar year shall be equal to one hundred twenty-five per cent
22 of the calendar year statutory valuation interest rate for such policy as
23 defined in the standard valuation law, rounded to the nearer one-quarter of
24 one per cent.

25 (b) FOR POLICIES ISSUED ON OR AFTER THE OPERATIVE DATE OF THE
26 VALUATION MANUAL, THE NONFORFEITURE INTEREST RATE PER ANNUM FOR ANY POLICY
27 ISSUED IN A PARTICULAR CALENDAR YEAR SHALL BE PROVIDED BY THE VALUATION
28 MANUAL.

29 10. Notwithstanding any other provision in this title, any refiling of
30 nonforfeiture values or their methods of computation for any previously
31 approved policy form ~~which~~ THAT involves only a change in the interest rate

1 or mortality table used to compute nonforfeiture values shall not require
2 refiling of any other provisions of that policy form.

3 11. After July 24, 1982 any insurer may file with the director a
4 written notice of its election to comply with the provisions of this section
5 after a specified date before January 1, 1989, which is the operative date of
6 this section for the insurer. If an insurer makes no such election, the
7 operative date of this section for the insurer is January 1, 1989.

8 12. FOR THE PURPOSES OF THIS SECTION:

9 (a) "OPERATIVE DATE OF THE VALUATION MANUAL" HAS THE SAME MEANING
10 PRESCRIBED IN SECTION 20-510, SUBSECTION R, PARAGRAPH 2.

11 (b) "VALUATION MANUAL" HAS THE SAME MEANING PRESCRIBED IN SECTION
12 20-510, SUBSECTION B."

13 Amend title to conform

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