

STANDARD NONFORFEITURE LAW FOR LIFE INSURANCE

Table of Contents

Section 1.	Title
Section 1a.	Definitions
Section 2.	Nonforfeiture Benefits
Section 3.	Computation of Cash Surrender Value
Section 4.	Computation of Paid-Up or Accrued Benefit.

Section 3. Computation of Cash Surrender Value

- A. Any cash surrender value available under the policy in the event of default in a premium payment due on any policy anniversary, whether or not required by Section 2, shall be an amount not less than the excess, if any, of the present value, on the anniversary, of the future guaranteed benefits which would have been provided for by the policy, including any existing paid-up additions, i (h)-0.8M Tf0 Tc 0 Tw 1.75 0 Td(-.8 (s)-0c)1 (es)0.7b.-1 (r)2.3 (y 20)-4 -6 (e)-/ sapaid paid

- D. Except as otherwise provided in Sections 5a and 5b, all adjusted premiums and present values referred to in this Act shall for all policies of ordinary insurance be calculated on the basis of the Commissioners 1941 Standard Ordinary Mortality Table, provided that for any category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to any age not more than three (3) years younger than the actual age of the insured and such calculations for all policies of industrial insurance shall be made on the basis of the 1941 Standard Industrial Mortality Table. All calculations shall be made on the basis of the rate of interest, not exceeding three and one-half percent (3 1/2%) per annum, specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than one hundred and thirty percent (130%) of the rates of mortality according to the applicable table. Provided, further, that for insurance issued on a substandard basis, the calculation of any adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

Section 5a. Calculation of Adjusted Premiums - Ordinary Policies

This section shall not apply to ordinary policies issued on or after the operative date of Section 5c. In the case of ordinary policies issued on or after the operative date of this section, all adjusted premiums and present values referred to in this Act shall be calculated on the basis of the Commissioners 1958 Standard Ordinary Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits provided that such rate of interest shall not exceed three and one-half percent (3 1/2%) per annum except that a rate of interest not exceeding four percent (4%) per annum may be used for policies issued on or after [insert effective date of 1972 NAIC amendments to the Standard Nonforfeiture Law for Life Insurance] and prior to [insert effective date of 1976 NAIC amendments to the Standard Nonforfeiture Law for Life Insurance] and a rate of interest not exceeding five and one-half percent (5 1/2%) per annum may be used; for policies issued on or after [insert effective date of 1976 NAIC amendments to the Standard Nonforfeiture Law for Life Insurance], except that for any single premium whole life or endowment insurance policy, a rate of interest not exceeding six and one-half percent (6 1/2%) per annum may be used; and provided that for any category of ordinary insurance issued on female risks, adjusted premiums and present values may be calculated according to an age not more than six (6) years younger than the actual age of the insured. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1958 Extended Term Insurance Table. Provided, further, that for insurance issued on a substandard basis, the calculation of any adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

Section 5b. Calculation of Adjusted Premiums - Industrial Policies

This section shall not apply to industrial policies issued on or after the operative date of Section 5c. In the case of industrial policies issued on or after the operative date of this section, all adjusted premiums and present values referred to in this Act shall be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table and the rate of interest specified in the policy for calculating cash surrender values and paid-up nonforfeiture benefits provided that such rate of interest shall not exceed three and one-half percent (3 1/2%) per annum, except that a rate of interest not exceeding four percent (4%) per annum may be used for policies issued on or after [insert effective date of 1972 NAIC amendments to the Standard Nonforfeiture Law for Life Insurance] and prior to [insert effective date of 1976 NAIC amendments to the Standard Nonforfeiture Law for Life Insurance] and a rate of interest not exceeding five and one-half percent (5 1/2%) per annum may be used for policies issued on or after [insert effective date of 1976 NAIC amendments to the Standard Nonforfeiture Law for Life Insurance], except that for any single premium whole life or endowment insurance policy a rate of interest not exceeding six and one-half percent (6 1/2%) per annum may be used. Provided, however, that in calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1961 Industrial Extended Term Insurance Table. Provided, further, that for insurance issued on a substandard basis, the calculations of any such adjusted premiums and present values may be based on such other table of mortality as may be specified by the company and approved by the commissioner.

After the effective date of this section, any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January 1, 1968. After the filing of such notice, upon the specified date (which shall be the operative date of this section for that company), this section shall become operative with respect to the industrial policies thereafter issued by the company. If a company makes no election, the operative date of this section for the company shall be January 1, 1968.

Section 5c.

- Provided, however, that in applying the percentage specified in (3) above no nonforfeiture net level premium shall be deemed to exceed four percent (4%) of either the amount of insurance, if the insurance be uniform in amount, or the average amount of insurance at the beginning of each of the first ten (10) policy years. The date of issue of a policy for the purpose of this section shall be the date as of which the rated age of the insured is determined.
- B. The nonforfeiture net level premium shall be equal to the present value, at the date of issue of the policy, of the guaranteed benefits provided for by the policy divided by the present value, at the date of issue of the policy, of an annuity of one per annum payable on the date of issue of the policy and on each anniversary of the policy on which a premium falls due.
- C. In the case of policies which cause, on a basis guaranteed in the policy, unscheduled changes in benefits or premiums; or which provide an option for changes in benefits or premiums, other than a change to a new policy; the adjusted premiums and present values shall initially be calculated on the assumption that future benefits and premiums do not change from those stipulated at the date of issue of the policy. At the time of any change in the benefits or premiums, the future adjusted premiums, nonforfeiture net level premiums and present values shall be recalculated on the assumption that future benefits and premiums do not change from those stipulated by the policy immediately after the change.
- D. Except as otherwise provided in Subsection G, the recalculated future adjusted premiums for any policy shall be uniform percentage of the respective future premiums specified in the policy for each policy year, excluding amounts payable as extra premiums to cover impairments and special hazards, and also excluding any uniform annual contract charge or policy fee specified in the policy in a statement of the method to be used in calculating the cash surrender values and paid-up nonforfeiture benefits, that the present value, at the time of change to the newly defined benefits or premiums, of all such future adjusted premiums shall be equal to the excess of:
- (1) The sum of
 - (a) The then present value of the then future guaranteed benefits provided for by the policy, and
 - (b) The additional expense allowance, if any, over
 - (2) The then cash surrender value, if any, or present value of any paid-up nonforfeiture benefit under this policy.
- E. The additional expense allowance, at the time of the change to the newly defined benefits or premiums, shall be the sum of:
- (1) One percent of the excess, if positive, of the average amount of insurance at the beginning of each of the first ten (10) policy years subsequent to the change over the

- F. The recalculated nonforfeiture net level premium shall be equal to the result obtained by dividing (1) by (2) where
- (1) Equals the sum of
 - (a) The nonforfeiture net level premium applicable prior to the change times the present value of an annuity of one per annum payable on each anniversary of the policy on or subsequent to the date of the change on which a premium would have fallen due had the change not occurred, and
 - (b) The present value of the increase in future guaranteed benefits provided for by the policy, and
 - (2) Equals the present value of an annuity of one per annum payable on each anniversary of the policy on or subsequent to the date of change on which a premium falls due.
- G. Notwithstanding any other provisions of this section to the contrary, in the case of a policy issued on a substandard basis which provides reduced graded amounts of insurance so that, in each policy year, the policy has the same tabular mortality cost as an otherwise similar policy issued on the standard basis which provides higher uniform amount of insurance, adjusted premiums and present values for the substandard policy may be calculated as if it were issued to provide higher uniform amounts of insurance on the standard basis.
- H. All adjusted premiums and present values referred to in this Act shall for all policies of ordinary insurance be calculated on the basis of the Commissioners 1980 Standard Ordinary Mortality Table; or, at the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors; shall for all policies of industrial insurance be calculated on the basis of the Commissioners 1961 Standard Industrial Mortality Table; and shall for all policies issued in a particular calendar year be calculated on the basis of a rate of interest not exceeding the nonforfeiture interest rate as defined in this section, for policies issued in that calendar year. Provided, however, that:
- (1) At the option of the company, calculations for all policies issued in a particular calendar year may be made on the basis of a rate of interest not exceeding the nonforfeiture interest rate, as defined in this section, for policies issued in the immediately preceding calendar year.
 - (2) Under any paid-up nonforfeiture benefit, including any paid-up dividend additions, any cash surrender value available, whether or not required by Section 2, shall be calculated on the basis of the mortality table and rate of interest used in determining the amount of such paid-up nonforfeiture benefit and paid-up dividend additions, if any.
 - (3) A company may calculate the amount of any guaranteed paid-up nonforfeiture benefit including any paid-up additions under the policy on the basis of an interest rate no lower than that specified in the policy for calculating cash surrender values.

- (4) In calculating the present value of any paid-up term insurance with accompanying pure endowment, if any, offered as a nonforfeiture benefit, the rates of mortality assumed may be not more than those shown in the Commissioners 1980 Extended Term Insurance Table for policies of ordinary insurance and not more than the Commissioners 1961 Industrial Extended Term Insurance Table for policies of industrial insurance.
- (5) For insurance issued on a substandard basis, the calculation of any adjusted premiums and present values may be based on appropriate modifications of the aforementioned tables.
- (6)

- I. The nonforfeiture interest rate is defined below:
 - (1) For policies issued prior to the operative date of the valuation manual, the nonforfeiture interest rate per annum for any policy issued in a particular calendar year shall be equal to one hundred and twenty-five percent (125%) of the calendar year statutory valuation interest rate for such policy as defined in the *Standard Valuation Law*, rounded to the nearer one qua

The basic cash value shall be equal to the present value, on such anniversary, of the future guaranteed benefits which would have been provided for by the policy, excluding any existing paid-up additions and before deduction of any indebtedness to the company, if there had been no default, less the then present value of the nonforfeiture factors, as defined in this Act, corresponding to premiums which would have fallen due on and after the anniversary. Provided, however, that the effects on the basic cash value of supplemental life insurance or annuity benefits or of family coverage, as described in Section 3 or 5, whichever is applicable, shall be the same as the effects specified in Section 3 or 5, whichever is applicable, on the cash surrender values defined in that section.

The nonforfeiture factor for each policy year shall be an amount equal to a percentage of the adjusted premium

- C. Pure endowment;
- D. Annuity or reversionary annuity contract;
- E. A term policy of uniform amount, which provides no guaranteed nonforfeiture or endowment