

1 **State of Arkansas**  
2 **80th General Assembly**  
3 **Regular Session, 1995**

# **A Bill**

**ACT 624 OF 1995**  
**HOUSE BILL 1724**

4 **By: Representatives Young, Maddox, J. Miller, Capps, Cunningham, Newman, M. Wilson,**  
5 **Beatty, Purdom, and Allen**

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## **For An Act To Be Entitled**

9 "AN ACT TO AMEND TITLE 23, CHAPTER 84 OF THE ARKANSAS CODE  
10 TO REQUIRE PROPER VALUATION OF INTEREST RATES ON INSURANCE  
11 POLICIES SO THAT THE ARKANSAS INSURANCE COMMISSIONER CAN  
12 BETTER REGULATE THE FINANCIAL SOLVENCY OF INSURANCE  
13 COMPANIES; AND FOR OTHER PURPOSES."

14

### **Subtitle**

15

"VALUATION OF POLICIES"

16

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18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

19

20 SECTION 1. Arkansas Code 23-84-105 is amended as follows:

21 "§ 23-84-105. Minimum standard for valuation - Interest rates.

22 (a) Applicability of this Section.

23 The interest rates used in determining the minimum standard for the  
24 valuation of the following shall be the calendar year statutory valuation  
25 interest rates as defined in this chapter:

26 (1) All life insurance policies issued in a particular calendar  
27 year, on or after the operative date of § 23-81-213(d);

28 (2) All individual annuity and pure endowment contracts issued in  
29 a particular calendar year on or after the operative date of § 23-81-213(e);

30 (3) All annuities and pure endowments purchased in a particular  
31 calendar year on or after the operative date of § 23-81-213(e), under group  
32 annuity and pure endowment contracts; and

33 (4) The net increase, if any, in a particular calendar year after  
34 the operative date of § 23-81-213(e), in amounts held under guaranteed  
35 interest contracts.

36 (b) Calendar Year Statutory Valuation Interest Rates.

1           (1) The calendar year statutory valuation interest rates, I,  
2 shall be determined as follows and the results rounded to the nearer  
3 one-quarter of one percent (1/4 of 1%):

4                   (A) For life insurance:

5

6                   
$$I = .03 + W (R1 - .03) + \frac{W}{2} (R2 - .09);$$
  
7

8                   (B) For single premium immediate annuities and for annuity  
9 benefits involving life contingencies arising from other annuities with cash  
10 settlement options and from guaranteed interest contracts with cash settlement  
11 options:

12                   
$$I = .03 + W (R - .03)$$

13                   where R1 is the lesser of R and .09,

14                   R2 is the greater of R and .09,

15                   R is the reference interest rate defined in subsection (d) of  
16 this section and W is the weighting factor defined in subsection (c) of this  
17 section;

18                   (C) For other annuities with cash settlement options and  
19 guaranteed interest contracts with cash settlement options valued on an issue  
20 year basis, except as stated in subdivision (b)(1)(B) of this section, the  
21 formula for life insurance stated in subdivision (b)(1)(A) of this section  
22 shall apply to annuities and guaranteed interest contracts with guaranteed  
23 durations in excess of ten (10) years; the formula for single premium  
24 immediate annuities stated in subdivision (b)(1)(B) of this section shall  
25 apply to annuities and guaranteed interest contracts with guaranteed duration  
26 of ten (10) years or less;

27                   (D) For other annuities with no cash settlement options and  
28 for guaranteed interest contracts with no cash settlement options, the formula  
29 for single premium immediate annuities stated in subdivision (b)(1)(B) of this  
30 section shall apply;

31                   (E) For other annuities with cash settlement options and  
32 guaranteed interest contracts with cash settlement options, valued on a change  
33 in fund basis, the formula for single premium immediate annuities stated in  
34 subsection (b)(1)(B) of this section shall apply;

35                   (2) However, if the calendar year statutory valuation interest

1 rate for any life insurance policies issued in any calendar year determined  
 2 without reference to this sentence differs from the corresponding actual rate  
 3 for similar policies issued in the immediately preceding calendar year by less  
 4 than one-half of one percent (1/2 of 1%), the calendar year statutory  
 5 valuation interest rate for such life insurance policies shall be equal to the  
 6 corresponding actual rate for the immediately preceding calendar year. For  
 7 purposes of applying the immediately preceding sentence, the calendar year  
 8 statutory valuation interest rate for life insurance policies issued in a  
 9 calendar year shall be determined for 1980 by using the reference interest  
 10 rate defined for 1979 and shall be determined for each subsequent calendar  
 11 year regardless of the operative date of § 23-81-213(d).

12 (c) Weighting Factors.

13 (1) The weighting factors referred to in the formulas stated  
 14 above are given in the following tables:

15 (A) Weighting Factors for Life Insurance:

16 Guarantee Duration Years	17 Weighting Factors
18 10 or less	.50
19 More than 10, but not more than 20	.45
20 More than 20	.35

21 For life insurance, the guarantee duration is the maximum number of  
 22 years the life insurance can remain in force on a basis guaranteed in the  
 23 policy or under options to convert to plans of life insurance with premium  
 24 rates or nonforfeiture values or both which are guaranteed in the original  
 25 policy;

26 (B) Weighting factor for single premium immediate annuities  
 27 and for annuity benefits involving life contingencies arising from other  
 28 annuities with cash settlement options and guaranteed interest contracts with  
 29 cash settlement options:

30 .80

31 (C) Weighting factors for other annuities and for  
 32 guaranteed interest contracts, except as stated in subdivision (c)(1)(B) of  
 33 this section, shall be as specified in tables (i), (ii), and (iii) of this  
 34 subdivision, according to the rules and definitions in (iv) and (v) of this  
 35 subdivision:

(i) For annuities and guaranteed interest contracts

1 valued on an issue year basis:

2 Guarantee Duration (Years)	Weighting Factor for Plan Type		
	A	B	C
3			
4 5 or less:	.80	.60	.50
5 More than 5, but not more than 10:	.75	.60	.50
6 More than 10, but not more than			
7 20:	.65	.50	.45
8 More than 20:	.45	.35	.35

9 (ii) For annuities and guaranteed interest contracts

10 valued on a change in fund basis, the factors shown in table (i) of this  
11 subdivision increased by:

	Plan Type		
	A	B	C
12			
13			
14	.15	.25	.05

15 (iii) For annuities and guaranteed interest contracts

16 valued on an issue-year basis, other than those with no cash settlement  
17 options which do not guarantee interest on considerations received more than  
18 one (1) year after issue or purchase and for annuities and guaranteed interest  
19 contracts valued on a change-in-fund basis which do not guarantee interest  
20 rates on considerations received more than twelve (12) months beyond the  
21 valuation date, the factors shown in table (i) of this subdivision or derived  
22 in table (ii) of this subdivision increased by:

	Plan Type		
	A	B	C
23			
24			
25	.05	.05	.05

26 (iv) For other annuities with cash settlement options  
27 and guaranteed interest contracts with cash settlement options, the guaranteed  
28 duration is the number of years for which the contract guarantees interest  
29 rates in excess of the calendar year statutory valuation interest rate for  
30 life insurance policies with guarantee duration in excess of twenty (20)  
31 years. For other annuities with no cash settlement options and for guaranteed  
32 interest contracts with no cash settlement options, the guarantee duration is  
33 the number of years from the date of issue or date of purchase to the date  
34 annuity benefits are scheduled to commence.

35 (v) Plan type as used in the above tables is defined

1 as follows:

2 Plan Type A: At any time policyholder may withdraw funds only:

3 (a) With an adjustment to reflect changes in interest rates  
4 or asset values since receipt of the funds by the insurer; or

5 (b) Without such adjustment but in installments over five  
6 (5) years or more; or

7 (c) As an immediate life annuity; or

8 (d) No withdrawal permitted.

9 Plan Type B: Before expiration of the interest rate guarantee,  
10 policyholder may withdraw funds only:

11 (a) With adjustment to reflect changes in interest rates or  
12 asset values since receipt of the funds by the insurer; or

13 (b) Without such adjustment but in installments over five  
14 (5) years or more; or

15 (c) No withdrawal permitted. At the end of interest rate  
16 guarantee, funds may be withdrawn without such adjustment in a single sum or  
17 installments over less than five (5) years;

18 Plan Type C: Policyholder may withdraw funds before expiration of  
19 interest rate guarantee in a single sum or installments over less than five  
20 (5) years either:

21 (a) Without adjustment to reflect changes in interest rates  
22 or asset values since receipt of the funds by the insurer; or

23 (b) Subject only to a fixed surrender charge stipulated in  
24 the contract as a percentage of the fund.

25 (2) An insurer may elect to value guaranteed interest contracts  
26 with cash settlement options and annuities with cash settlement options on  
27 either an issue-year basis or on a change-in-fund basis. Guaranteed interest  
28 contracts with no cash settlement options and other annuities with no cash  
29 settlement options must be valued on an issue-year basis. As used in this  
30 chapter, an issue-year basis of valuation refers to a valuation basis under  
31 which the interest rate used to determine the minimum valuation standard for  
32 the entire duration of the annuity or guaranteed interest contract is the  
33 calendar year valuation interest rate for the year of issue or year of  
34 purchase of the annuity or guaranteed interest contract, and the  
35 change-in-fund basis of valuation refers to a valuation basis under which the

1 interest rate used to determine the minimum valuation standard applicable to  
2 each change in the fund held under the annuity or guaranteed interest contract  
3 is the calendar year valuation interest rate for the year of the change in the  
4 fund.

5 (d) Reference Interest Rate.

6 The reference interest rate referred to in § 23-84-105(b) shall be  
7 defined as follows:

8 (1) For all life insurance, the lesser of the average over a  
9 period of thirty-six (36) months and the average over a period of twelve (12)  
10 months, ending June 30 of the calendar year next preceding the year of issue,  
11 of the Monthly Average of the Composite Yield on Seasoned Corporate Bonds as  
12 published by Moody's Investors Service, Inc.;

13 (2) For single premium immediate annuities and for annuity  
14 benefits involving life contingencies arising from other annuities with cash  
15 settlement options and guaranteed interest contracts with cash settlement  
16 options, the average over a period of twelve (12) months, ending on June 30 of  
17 the calendar year of issue or year of purchase of the Monthly Average of the  
18 Composite Yield on Seasoned Corporate Bonds as published by Moody's Investors  
19 Service, Inc.;

20 (3) For other annuities with cash settlement options and  
21 guaranteed interest contracts with cash settlement options, valued on a  
22 year-of-issue basis, except as stated in subdivision (d)(2) of this section,  
23 with guarantee duration in excess of ten (10) years, the lesser of the average  
24 over a period of thirty-six (36) months and the average over a period of  
25 twelve (12) months, ending on June 30 of the calendar year of issue or  
26 purchase, of the Monthly Average of the Composite Yield on Seasoned Corporate  
27 Bonds as published by Moody's Investors Service, Inc.;

28 (4) For other annuities with cash settlement options and  
29 guaranteed interest contracts with cash settlement options, valued on a  
30 year-of-issue basis, except as stated in subdivision (d)(2) of this section,  
31 with guarantee duration of ten (10) years or less, the average over a period  
32 of twelve (12) months, ending on June 30 of the calendar year of issue or  
33 purchase, of the Monthly Average of the Composite Yield on Seasoned Corporate  
34 Bonds as published by Moody's Investors Service, Inc.;

35 (5) For other annuities with no cash settlement options and for

1 guaranteed interest contracts with no cash settlement options, the average  
2 over a period of twelve (12) months, ending on June 30 of the calendar year of  
3 issue or purchase, of Monthly Average of the Composite Yield on Seasoned  
4 Corporate Bonds as published by Moody's Investors Service, Inc.;

5           (6) For other annuities with cash settlement options and  
6 guaranteed interest contracts with cash settlement options, valued on a  
7 change-in-fund basis, except as stated in subdivision (d)(2) of this section,  
8 the average over a period of twelve (12) months, ending on June 30 of the  
9 calendar year of the change in the fund, of the Monthly Average of the  
10 Composite Yield on Seasoned Corporate Bonds as published by the Moody's  
11 Investors Service, Inc.

12           (e) Alternative Method for Determining Reference Interest Rates.

13           In the event that the Monthly Average of the Composite Yield on Seasoned  
14 Corporate Bonds is no longer published by Moody's Investors Service, Inc., or  
15 in the event that the National Association of Insurance Commissioners  
16 determines that the Monthly Average of the Composite Yield on Seasoned  
17 Corporate Bonds as published by Moody's Investors Service, Inc. is no longer  
18 appropriate for the determination of the reference interest rate, then an  
19 alternative method for determination of the reference interest rate which is  
20 adopted by the National Association of Insurance Commissioners and approved by  
21 regulation promulgated by the commissioner may be substituted."

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23           SECTION 2. All provisions of this act of a general and permanent nature  
24 are amendatory to the Arkansas Code of 1987 Annotated and the Arkansas Code  
25 Revision Commission shall incorporate the same in the Code.

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27           SECTION 3. If any provision of this act or the application thereof to  
28 any person or circumstance is held invalid, such invalidity shall not affect  
29 other provisions or applications of the act which can be given effect without  
30 the invalid provision or application, and to this end the provisions of this  
31 act are declared to be severable.

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33           SECTION 4. All laws and parts of laws in conflict with this act are  
34 hereby repealed.

35

1 SECTION 5. EMERGENCY. It is hereby found and determined by the General  
2 Assembly that the present insurance laws are not sufficient to protect the  
3 Arkansas insurance buying public. It is determined that it is in the best  
4 interests of the state of Arkansas that the laws in this act be adopted  
5 immediately so that the Arkansas Insurance Department can better regulate the  
6 insurance industry. Therefore, an emergency is hereby declared to exist and  
7 this act being necessary for the immediate preservation of the public peace,  
8 health and safety shall be in full force and effect from and after its passage  
9 and approval.

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*/s/Rep. Young, et al*

APPROVED: 3-14-95



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