

1 State of Arkansas
2 80th General Assembly
3 Regular Session, 1995
4 By: Representatives Young, Maddox, J. Miller, Capps, Cunningham, Newman, M.
5 Wilson, Beatty, Purdom, and Allen
6
7

A Bill

HOUSE BILL 1724

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
17

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
29 in a particular calendar year on or after the operative date of §
30 23-81-213(e);

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

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

1 interest contracts.

2 (b) Calendar Year Statutory Valuation Interest Rates.

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

6 (A) For life insurance:

7

$$8 \quad I = .03 + W (R1 - .03) + \frac{W}{2} (R2 - .09);$$

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

$$14 \quad I = .03 + W (R - .03)$$

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

16 R2 is the greater of R and .09,

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

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

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

33 (E) For other annuities with cash settlement options and
34 guaranteed interest contracts with cash settlement options, valued on a
35 change in fund basis, the formula for single premium immediate annuities

1 subdivision:

2 (i) For annuities and guaranteed interest contracts
3 valued on an issue year basis:

4 Guarantee Duration (Years)	5 Weighting Factor for Plan Type		
	6 A	7 B	8 C
9 5 or less:	.80	.60	.50
10 More than 5, but not more than 10:	.75	.60	.50
11 More than 10, but not more than 20:	.65	.50	.45
12 More than 20:	.45	.35	.35

13 (ii) For annuities and guaranteed interest contracts
14 valued on a change in fund basis, the factors shown in table (i) of this
15 subdivision increased by:

	16 Plan Type		
	17 A	18 B	19 C
	.15	.25	.05

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

	28 Plan Type		
	29 A	30 B	31 C
	.05	.05	.05

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

1 the date annuity benefits are scheduled to commence.

2 (v) Plan type as used in the above tables is defined
3 as follows:

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

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

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

9 (c) As an immediate life annuity; or

10 (d) No withdrawal permitted.

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

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

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

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

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

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

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

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

1 purchase of the annuity or guaranteed interest contract, and the
2 change-in-fund basis of valuation refers to a valuation basis under which the
3 interest rate used to determine the minimum valuation standard applicable to
4 each change in the fund held under the annuity or guaranteed interest
5 contract is the calendar year valuation interest rate for the year of the
6 change in the fund.

7 (d) Reference Interest Rate.

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

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

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

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

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

1 Bonds as published by Moody's Investors Service, Inc.;

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

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

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

15 In the event that the Monthly Average of the Composite Yield on
16 Seasoned Corporate Bonds is no longer published by Moody's Investors Service,
17 Inc., or in the event that the National Association of Insurance
18 Commissioners determines that the Monthly Average of the Composite Yield on
19 Seasoned Corporate Bonds as published by Moody's Investors Service, Inc. is
20 no longer appropriate for the determination of the reference interest rate,
21 then an alternative method for determination of the reference interest rate
22 which is adopted by the National Association of Insurance Commissioners and
23 approved by regulation promulgated by the commissioner may be substituted."
24

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

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

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35 SECTION 4. All laws and parts of laws in conflict with this act are

1 hereby repealed.

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

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/s/Rep. Young, et al

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