

1 AN ACT concerning insurance.

2 Be it enacted by the People of the State of Illinois,
3 represented in the General Assembly:

4 Section 5. The Illinois Insurance Code is amended by
5 changing Section 229.4 as follows:

6 (215 ILCS 5/229.4) (from Ch. 73, par. 841.4)

7 Sec. 229.4. Standard Non-forfeiture Law for Individual
8 Deferred Annuities.

9 (1) No contract of annuity issued on or after the
10 operative date of this Section except as stated in subsection
11 (11) ~~11~~ shall be delivered or issued for delivery in this
12 State unless it contains in substance the following
13 provisions or corresponding provisions which in the opinion
14 of the Director are at least as favorable to the contract
15 holder upon cessation of payment of considerations under the
16 contract:

17 (a) That upon cessation of payment of
18 considerations under a contract, the company will grant a
19 paid-up annuity benefit on a plan stipulated in the
20 contract of such value as is specified in subsections
21 (3), (4), (5), (6) and (8).

22 (b) If a contract provides for a lump sum
23 settlement at maturity, or at any other time, that upon
24 surrender of the contract at or prior to the commencement
25 of any annuity payments, the company will pay in lieu of
26 any paid-up annuity benefit a cash surrender benefit of
27 such amount as is specified in subsections (3), (4), (6)
28 and (8). The company shall reserve the right to defer
29 the payment of such cash surrender benefit for a period
30 of 6 months after demand therefor with surrender of the
31 contract.

1 (c) A statement of the mortality table, if any, and
2 interest rates used in calculating any minimum paid-up
3 annuity, cash surrender or death benefits that are
4 guaranteed under the contract, together with sufficient
5 information to determine the amount of such benefits.

6 (d) A statement that any paid-up annuity, cash
7 surrender or death benefits that may be available under
8 the contract are not less than the minimum benefits
9 required by any statute of the state in which the
10 contract is delivered and an explanation of the manner in
11 which such benefits are altered by the existence of any
12 additional amounts credited by the company to the
13 contract, any indebtedness to the company on the contract
14 or any prior withdrawals from or partial surrenders of
15 the contract.

16 Notwithstanding the requirements of this subsection, any
17 deferred annuity contract may provide that if no
18 considerations have been received under a contract for a
19 period of 2 full years and the portion of the paid-up annuity
20 benefit at maturity on the plan stipulated in the contract
21 arising from considerations paid prior to such period would
22 be less than \$20.00 monthly, the company may at its option
23 terminate such contract by payment in cash of the present
24 value of such portion of the paid-up annuity benefit,
25 calculated on the basis of the mortality table, if any, and
26 interest rate specified in the contract for determining the
27 paid-up annuity benefit, and by such payment shall be
28 relieved of any further obligation under such contract.

29 (2) The minimum values as specified in subsections (3),
30 (4), (5), (6) and (8) of any paid-up annuity, cash surrender
31 or death benefits available under an annuity contract shall
32 be based upon minimum nonforfeiture amounts as defined in
33 this subsection.

34 (a) With respect to contracts providing for

1 flexible considerations, the minimum nonforfeiture amount
2 at any time at or prior to the commencement of any
3 annuity payments shall be equal to an accumulation up to
4 such time at a rate of interest of 3% per annum of
5 percentages of the net considerations, as hereinafter
6 defined, paid prior to such time, decreased by the sum of
7 (i) any prior withdrawals from or partial surrenders of
8 the contract accumulated at a rate of interest of 3% per
9 annum and (ii) the amount of any indebtedness to the
10 company on the contract, including interest due and
11 accrued, and increased by any existing additional amounts
12 credited by the company to the contract.

13 The net considerations for a given contract year
14 used to define the minimum nonforfeiture amount shall be
15 an amount not less than zero and shall be equal to the
16 corresponding gross considerations credited to the
17 contract during that contract year less an annual
18 contract charge of \$30.00 and less a collection charge of
19 \$1.25 per consideration credited to the contract during
20 that contract year. The percentages of net
21 considerations shall be 65% of the net consideration for
22 the first contract year and 87 1/2% of the net
23 considerations for the second and later contract years.
24 Notwithstanding the provisions of the preceding sentence,
25 the percentage shall be 65% of the portion of the total
26 net consideration for any renewal contract year which
27 exceeds by not more than two times the sum of those
28 portions of the net considerations in all prior contract
29 years for which the percentage was 65%.

30 (a-5) Notwithstanding the provisions of paragraph
31 (a) of this subsection, the minimum nonforfeiture amount
32 for any contract issued on or after July 1, 2002 and
33 before July 1, 2005 shall be based on a rate of interest
34 of 1.5% per annum.

1 (b) With respect to contracts providing for fixed
2 scheduled considerations, minimum nonforfeiture amounts
3 shall be calculated on the assumption that considerations
4 are paid annually in advance and shall be defined as for
5 contracts with flexible considerations which are paid
6 annually, with two exceptions:

7 (i) The portion of the net consideration for
8 the first contract year to be accumulated shall be
9 the sum of 65% of the net consideration for the
10 first contract year plus 22 1/2% of the excess of
11 the net consideration for the first contract year
12 over the lesser of the net considerations for the
13 second and third contract years.

14 (ii) The annual contract charge shall be the
15 lesser of (A) \$30.00 or (B) 10% of the gross annual
16 consideration.

17 (c) With respect to contracts providing for a
18 single consideration, minimum nonforfeiture amounts shall
19 be defined as for contracts with flexible considerations
20 except that the percentage of net consideration used to
21 determine the minimum nonforfeiture amount shall be equal
22 to 90% and the net consideration shall be the gross
23 consideration less a contract charge of \$75.00.

24 (3) Any paid-up annuity benefit available under a
25 contract shall be such that its present value on the date
26 annuity payments are to commence is at least equal to the
27 minimum nonforfeiture amount on that date. Such present
28 value shall be computed using the mortality table, if any,
29 and the interest rate specified in the contract for
30 determining the minimum paid-up annuity benefits guaranteed
31 in the contract.

32 (4) For contracts which provide cash surrender benefits,
33 such cash surrender benefits available prior to maturity
34 shall not be less than the present value as of the date of

1 surrender of that portion of the maturity value of the
2 paid-up annuity benefit which would be provided under the
3 contract at maturity arising from considerations paid prior
4 to the time of cash surrender reduced by the amount
5 appropriate to reflect any prior withdrawals from or partial
6 surrenders of the contract, such present value being
7 calculated on the basis of an interest rate not more than 1%
8 higher than the interest rate specified in the contract for
9 accumulating the net considerations to determine such
10 maturity value, decreased by the amount of any indebtedness
11 to the company on the contract, including interest due and
12 accrued, and increased by any existing additional amounts
13 credited by the company to the contract. In no event shall
14 any cash surrender benefit be less than the minimum
15 nonforfeiture amount at that time. The death benefit under
16 such contracts shall be at least equal to the cash surrender
17 benefit.

18 (5) For contracts which do not provide cash surrender
19 benefits, the present value of any paid-up annuity benefit
20 available as a nonforfeiture option at any time prior to
21 maturity shall not be less than the present value of that
22 portion of the maturity value of the paid-up benefit provided
23 under the contract arising from considerations paid prior to
24 the time of the contract is surrendered in exchange for, or
25 changed to, a deferred paid-up annuity, such present value
26 being calculated for the period prior to the maturity date on
27 the basis of the interest rate specified in the contract for
28 accumulating the net considerations to determine such
29 maturity value, and increased by any existing additional
30 amounts credited by the company to the contract. For
31 contracts which do not provide any death benefits prior to
32 the commencement of any annuity payments, such present values
33 shall be calculated on the basis of such interest rate and
34 the mortality table specified in the contract for determining

1 the maturity value of the paid-up annuity benefit. However,
2 in no event shall the present value of a paid-up annuity
3 benefit be less than the minimum nonforfeiture amount at that
4 time.

5 (6) For the purpose of determining the benefits
6 calculated under subsections (4) and (5), in the case of
7 annuity contracts under which an election may be made to have
8 annuity payments commence at optional maturity dates, the
9 maturity date shall be deemed to be the latest date for which
10 election shall be permitted by the contract, but shall not be
11 deemed to be later than the anniversary of the contract next
12 following the annuitant's seventieth birthday or the tenth
13 anniversary of the contract, whichever is later.

14 (7) Any contract which does not provide cash surrender
15 benefits or does not provide death benefits at least equal to
16 the minimum nonforfeiture amount prior to the commencement of
17 any annuity payments shall include a statement in a prominent
18 place in the contract that such benefits are not provided.

19 (8) Any paid-up annuity, cash surrender or death
20 benefits available at any time, other than on the contract
21 anniversary under any contract with fixed scheduled
22 considerations, shall be calculated with allowance for the
23 lapse of time and the payment of any scheduled considerations
24 beyond the beginning of the contract year in which cessation
25 of payment of considerations under the contract occurs.

26 (9) For any contract which provides, within the same
27 contract by rider or supplemental contract provision, both
28 annuity benefits and life insurance benefits that are in
29 excess of the greater of cash surrender benefits or a return
30 of the gross considerations with interest, the minimum
31 nonforfeiture benefits shall be equal to the sum of the
32 minimum nonforfeiture benefits for the annuity portion and
33 the minimum nonforfeiture benefits, if any, for the life
34 insurance portion computed as if each portion were a separate

1 contract. Notwithstanding the provisions of subsections (3),
2 (4), (5), (6) and (8), additional benefits payable (a) in the
3 event of total and permanent disability, (b) as reversionary
4 annuity or deferred reversionary annuity benefits, or (c) as
5 other policy benefits additional to life insurance,
6 endowment, and annuity benefits, and considerations for all
7 such additional benefits, shall be disregarded in
8 ascertaining the minimum nonforfeiture amounts, paid-up
9 annuity, cash surrender and death benefits that may be
10 required by this section. The inclusion of such additional
11 benefits shall not be required in any paid-up benefits,
12 unless such additional benefits separately would require
13 minimum nonforfeiture amounts, paid-up annuity, cash
14 surrender and death benefits.

15 (10) After the effective date of this Section, any
16 company may file with the Director a written notice of its
17 election to comply with the provisions of this Section after
18 a specified date before the second anniversary of the
19 effective date of this Section. After the filing of such
20 notice, then upon such specified date, which shall be the
21 operative date of this section for such company, this Section
22 shall become operative with respect to annuity contracts
23 thereafter issued by such company. If a company makes no
24 such election, the operative date of this section for such
25 company shall be the second anniversary of the effective date
26 of this Section.

27 (11) This Section shall not apply to any reinsurance,
28 group annuity purchased under a retirement plan or plan of
29 deferred compensation established or maintained by an
30 employer (including a partnership or sole proprietorship) or
31 by an employee organization, or by both, other than a plan
32 providing individual retirement accounts or individual
33 retirement annuities under Section 408 of the Internal
34 Revenue Code, as now or hereafter amended, premium deposit

1 fund, variable annuity, investment annuity, immediate
2 annuity, any deferred annuity contract after annuity payments
3 have commenced, or reversionary annuity, nor to any contract
4 which shall be delivered outside this State through an agent
5 or other representative of the company issuing the contract.
6 (Source: P.A. 90-655, eff. 7-30-98.)

7 Section 99. Effective date. This Act takes effect on
8 July 1, 2002.