

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.