



Ohio Revised Code

Section 3903.724 Determination of valuation interest rate.

Effective: September 4, 2014

Legislation: Senate Bill 140 - 130th General Assembly

(A) This section shall determine the calendar year statutory valuation interest rates (VIR) used in determining the minimum standard for the valuation of all of the following:

- (1) Life insurance policies issued on or after January 1, 1989;
- (2) Individual annuity and pure endowment contracts issued on or after January 1, 1989;
- (3) Annuities and pure endowments purchased on or after January 1, 1989, under group annuity and pure endowment contracts;
- (4) The net increase, if any, in amounts held under a guaranteed interest contact in a calendar year after January 1, 1989.

(B) The calendar year statutory valuation interest rates shall be calculated as follows and the results rounded to the nearest one-quarter of one per cent:

(1)(a) For life insurance, by adding three per cent to the result of multiplying W (the applicable weighting factor) by R(sub-1) minus three per cent (where R(sub-1) is the lesser of the reference interest rate and nine per cent) and also adding the result of multiplying one-half of the weighting factor by R(sub-2) minus nine per cent (where R(sub-2) is the greater of the reference interest rate and nine per cent), expressed as follows:

$$\text{VIR} = .03 + W (\text{R}(\text{sub-1}) - .03) + W/2(\text{R}(\text{sub-2}) - .09).$$

(b) Provided that if the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined in accordance with this division does not differ from the calendar year valuation interest rate for similar policies issued in the preceding calendar year by at least one-half of one per cent, the calendar year valuation interest rate for the policy shall be equal to



the calendar year valuation interest rate for the preceding calendar year. The calendar year statutory valuation interest rate shall be determined for 1980 and for each subsequent year prior to the operative date of the valuation manual.

(2) For all single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options by adding to three per cent the result of multiplying W (the applicable weighting factor) by R minus three per cent (where R is the reference interest rate), expressed as follows:

$$\text{VIR} = .03 + W (R -.03).$$

(3) Except as provided in division (B)(2) of this section, for other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, the life insurance formula stated in division (B)(1) of this section shall apply to all annuity and guaranteed interest contracts with guarantee durations in excess of ten years and the formula for single premium immediate annuities stated in division (B)(2) of this section shall apply to annuities and guaranteed interest contracts with guarantee duration of ten years or less.

(4) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in division (B)(2) of this section shall apply.

(5) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in division (B)(2) of this section shall apply.

(C) For life insurance, the guarantee duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under an option to convert to a plan of life insurance with premium rates or nonforfeiture values, or both, guaranteed in the policy.

(D) The weighting factors for the formulas prescribed in division (B) of this section are shown in the following table:



| Weighting Factors for Life Insurance | |
|--------------------------------------|-------------------|
| Guarantee Duration (Years) | Weighting Factors |
| 10 or less | .50 |
| More than 10, but not more than 20 | .45 |
| More than 20 | .35 |

(E) The weighting factor for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuity and guaranteed interest contracts with cash settlement options is .80.

(F) Weighting factors for all other annuity and guaranteed interest contracts vary with the type of plan and guarantee duration. The types of plans are as follows:

(1) A plan type A is one in which funds may not be withdrawn or may be withdrawn in only one of three ways:

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

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

(c) As an immediate life annuity.

(2) A plan type B is one in which the funds may not be withdrawn before the expiration of the interest rate guarantee unless an adjustment is made to reflect changes in interest rates or asset values since receipt of the funds by the company or unless they are withdrawn in installments over five or more years. At the end of the interest rate guarantee, funds may be withdrawn in a single sum or in installments over less than five years without adjustment.

(3) A plan type C is one in which the funds may be withdrawn before the end of the interest rate guarantee in a single sum or in installments over less than five years without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the company or subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.



(4) The guarantee duration for an annuity or guaranteed interest contract with cash settlement options is the number of years for which the contract guarantees interest rates in excess of the calendar year valuation interest rate for life insurance policies with guarantee duration in excess of twenty years. The guarantee duration for annuity and guaranteed interest contracts without cash settlement options is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.

(5) Annuity and guaranteed interest contracts with cash settlement options may be valued on an issue year basis or on a change in fund basis. Annuity and guaranteed interest contracts without cash settlement options must be valued on an issue year basis. As used in this division, an issue year basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract, and the change in fund basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

(6) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in division (E) of this section, are specified below.

(a) For annuity and guaranteed interest contracts valued on an issue year basis:

Weighting Factors for Annuities and Guaranteed Interest Contracts

| Guarantee Duration (Years) | Weighting Factor for Plan Type | | |
|------------------------------------|--------------------------------|-----|-----|
| | A | B | C |
| 5 or less | .80 | .60 | .50 |
| More than 5, but not more than 10 | .75 | .60 | .50 |
| More than 10, but not more than 20 | .65 | .50 | .45 |



| | | | |
|--------------|-----|-----|-----|
| More than 20 | .45 | .35 | .35 |
|--------------|-----|-----|-----|

(b) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in division (F)(6)(a) of this section increased by the following amounts:

(i) For plan type A, .15;

(ii) For plan type B, .25;

(iii) For plan type C, .05.

(c) For annuities and guaranteed interest contracts valued on an issue year basis, other than those with no cash settlement options, that do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than twelve months beyond the valuation date, the factors shown in item (F)(6)(a) or derived in item (F)(6)(b) increased by .05 for all plan types.

(G) The reference interest rate is determined by comparing the monthly average of the composite yield of the monthly average on seasoned corporate bonds, as published by Moody's investors service, inc. for the applicable time period, as prescribed below:

(1) The reference interest rate for all life insurance is the lesser of such average over the thirty-six month period and such average over the twelve-month period ending on the thirtieth day of June of the calendar year preceding the year of issue.

(2) The reference interest rate for annuity and guaranteed interest contracts with cash settlement options, except single premium immediate annuities and annuity benefits involving life contingencies arising from other annuity and guaranteed interest contracts with cash settlement options, valued on an issue year basis with guarantee durations in excess of ten years, is the lesser of such average over the thirty-six month period and such average over the twelve-month period ending on the thirtieth day of June of the calendar year of issue or purchase.



- (3) The reference interest rate for other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in division (G)(6) of this section, with guarantee duration of ten years or less, such average over the twelve-month period ending on the thirtieth day of June of the calendar year of issue or purchase.
- (4) The reference interest rate for other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, such average over the twelve-month period ending on the thirtieth day of June of the calendar year of issue or purchase.
- (5) The reference interest rate for all other annuity and guaranteed interest contracts with cash settlement options valued on a change in fund basis is such average over the twelve-month period ending on the thirtieth day of June of the calendar year in which a change in the fund occurs.
- (6) The reference interest rate for all single premium immediate annuities and annuity benefits involving life contingencies arising from other annuity and guaranteed interest contracts with cash settlement options is such average over the twelve-month period ending on the thirtieth day of June of the calendar year of issue or purchase.
- (7) If such corporate bond rate average is no longer published or the national association of insurance commissioners determines that such average is no longer appropriate, the superintendent may by rule approve the use of any alternative method for the determination of the reference interest rate adopted by the commissioners.