§ 4220. Life insurance and annuities; nonforfeiture benefits under defaulted contracts. (a) (1) This section shall apply only to those policies and contracts issued prior to the operative date specified in section four thousand two hundred twenty-one of this article.

(2) Except as otherwise provided in this chapter, in the event of default in payment of a premium or a note therefor or any interest on such note, after three full years' premiums have been paid on a policy of life insurance issued by a domestic insurance company on or after January first, nineteen hundred forty, such company, upon surrender of such policy within the period of three months from the due date of the payment in default, shall pay to the person entitled thereto a cash surrender value not less than the excess, if any, of subparagraph (A) over subparagraph (B) as follows:

(A) The reserve on the policy at the due date of the premium in default (including the reserve for any paid-up additions thereto and excluding the reserve for any additional benefits in the event of death by accident or for benefits in the event of total and permanent disability or for any continuous instalment payments to the beneficiary or to the insured and the beneficiary incidental to the life insurance benefit), determined on the basis, in accordance with section four thousand two hundred seventeen of this article, specified in the policy, and in addition to such reserve, the amount of any dividends standing to the credit of the policy;

(B) the sum of any indebtedness to the company on the policy, including interest due or accrued, and a surrender charge equal to two and one-half per centum of the face amount of such policy and of any paid-up additions thereto, and if the policy be surrendered within the period above specified and after the expiration of the grace period, if any, following the due date of the payment in default, then there may be added to the sum to be deducted the value of any extended term insurance granted (determined as hereinafter specified) during the period between the expiration of the grace period and the date of surrender of the policy.

(3) The person entitled to such cash surrender value may, upon demand therefor within three months after the due date of the payment in default, elect to receive in lieu of such cash surrender value either extended term insurance (including pure endowment benefits, if any) or

reduced paid-up insurance under the policy, for a term, in the case of extended term insurance, and for an amount, in the case of reduced paid-up insurance, which, in either case, shall be not less than that provided by applying such cash surrender value at the date of default to provide such extended term or paid-up insurance, computed at net rates at the attained insurance age of the insured and on the same basis used for the computation of such cash surrender value, except that in the case of policies issued on a substandard basis or policies for which the reserves are computed upon the American Men Ultimate Table of Mortality, the term of such extended insurance may be computed upon rates of mortality not greater than one hundred thirty per centum of those shown by the table specified in the policy for the computation of the reserve. The period of extended term insurance shall date from the due date of the premium in default. Reduced paid-up insurance shall be participating if the policy be participating.

(4) The amount of the extended term insurance shall be not less than the amount of life insurance under the policy as expressed in the policy with the approval of the superintendent (including any paid-up additions thereto and excluding any additional benefits on account of death by accident or any continuous instalment payments to the beneficiary or to the insured and the beneficiary incidental to the life insurance benefit), decreased by the amount of any indebtedness to the company on the policy, including interest due or accrued. In the case of any endowment life insurance policy, if the sum used to provide extended term insurance shall be more than sufficient to continue the insurance to the end of the endowment period, the excess shall be used to provide a pure endowment benefit at the end of the endowment period.

(5) Extended term insurance and reduced paid-up insurance may exclude additional benefits in the event of death by accident and benefits in the event of total and permanent disability, and extended term insurance may be without participation in surplus and without the right to loans.

(6) If no other option expressed in the policy be so selected by such person within three months after the due date of the premium in default, the amount of such nonforfeiture value shall be applied to continue the insurance in force from the due date of the premium in default as extended term insurance as hereinbefore provided.

(7) The policy shall specify the reserve basis used in determining

nonforfeiture benefits and cash surrender values.

(8) This subsection shall not apply to any pure endowment, annuity, or reversionary annuity contract, nor to any term insurance of thirty years or less.

(9) In the case of ordinary or industrial life insurance policies issued on a substandard basis the company shall not be required to provide extended term insurance as a nonforfeiture benefit.

(10) That the company must provide, to any policyowner who so requests in writing, within twenty business days from the date the written request is received by the company, a statement of the cash surrender value of the policy.

(b) (1) Every contract issued after January first, nineteen hundred forty, by any domestic life insurance company which provides for a deferred annuity on the life of the insured or of the annuitant, or for a pure endowment contract, except a contract paid for by a single premium, shall provide that if the contract after having been in force for three full years, shall by its terms lapse or become defaulted because any stipulated payment to the company shall not have been made, the reserve on such contract, computed according to the standard adopted by such company pursuant to section four thousand two hundred seventeen of this article, shall, after deducting a surrender charge not to exceed the limits hereinafter specified, and after deducting the amount of the unpaid balance, including interest due or accrued, on any loans on such contract by the company, be applied as a net single premium according to such standard, for the purchase of a paid-up annuity or pure endowment contract, which shall be payable by the company under the same terms and conditions, except as to amount, as the original contract.

(2) The surrender charge to be deducted pursuant to paragraph one hereof shall not exceed the greater of the following amounts:

(A) thirty-five percent of the gross annual stipulated payment required by the holder of such contract by the terms thereof; or

(B) twenty-five dollars per one hundred dollars a year income provided by the contract at the normal retirement age.

(3) If such contract provides for a cash surrender value at the option of the holder of such contract and in lieu of such paid-up annuity or pure endowment contract, such cash surrender value shall be an amount at least equal to such net single premium and shall be payable to the

holder of such contract upon demand therefor and the surrender of such contract within ninety days after the date of lapse or default.

(4) The paid-up annuity or pure endowment contract prescribed by this section shall not include additional benefits in the event of accidental death or benefits in the event of total and permanent disability and, at the option of the insurer, may be without future participation in surplus and without the right to loans.

(c) The company may provide in any policy or contract that the payment of any cash surrender value may be deferred for not exceeding six months after demand therefor with surrender of the policy or contract as provided above, and the amount payable shall bear interest during any such deferred period of thirty days or more at the rate specified in the policy for the computation of the reserve.

(d) The surrender value and other nonforfeiture benefits of any lapsed or defaulted policy of life insurance or annuity contract issued by any domestic life insurance company before January first, nineteen hundred forty shall be determined in accordance with the law applicable at the date of issuance of such policy or contract.

(e) No foreign or alien life insurance company shall deliver or issue for delivery in this state any policy of life insurance or any annuity or pure endowment contract which does not contain the provisions required by subsection (a) or (b) hereof, as the case may be, or provisions which, in the opinion of the superintendent, are at least equally favorable to policyholders.