

**RESTRICTIONS ON INVESTMENT OF FUNDS**

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The purpose of this Bulletin is to clarify the application of the restrictions on investments contained in Iowa Code section 514.12 (1987).

Section 514.12 states that "[t]he funds of any corporation subject to the provisions of this chapter shall be invested only in securities permitted by the laws of this state for the investment of funds of life insurance companies." Iowa Code section 511.8 (1987) contains the restrictions applicable to the legal reserves of a life insurance company, with the term legal reserves defined as "... the net present value of all outstanding policies, and contracts involving life contingencies." Questions have been raised as to the scope of the section 514.12 restrictions given the absence of legal reserves on the part of corporations subject to chapter 514. These corporations are also known as service plans.

The Commissioner is of the view that those portions of the plans' investments which are subject to the limitations set forth in section 511.8 for life insurance companies are the net present value of the following: 1) all outstanding and unpaid claims; 2) unearned subscriber payments (also known as advance payments); and 3) any rate credit liability established for the benefit of subscribers. Any other investments held by the plans beyond those amounts set forth above are not otherwise limited.

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COMMISSIONER OF INSURANCE