

HOUSE BILL REPORT

2SSB 5506

As Reported by House Committee On:

Financial Institutions & Insurance

Title: An act relating to the separate reserve fund maintained by a charitable gift annuity business.

Brief Description: Regulating charitable gift annuity businesses.

Sponsors: Senate Committee on Labor, Commerce & Financial Institutions (originally sponsored by Senator Jacobsen).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/26/02 [DPA].

Brief Summary of Second Substitute Bill (As Amended by House Committee)

- A charitable organization involved in the charitable gift annuity business may be exempted from the reserve fund requirement, provided the organization purchases a single premium commercial life annuity sufficient to cover the organization's payment obligations under its annuity contracts.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended. Signed by 11 members: Representatives Cooper, Chair; McIntire, Vice Chair; Benson, Ranking Minority Member; Barlean, Cairnes, Hatfield, Mielke, Miloscia, Roach, Santos and Simpson.

Staff: Thamas Osborn (786-7129).

Background:

Many nonprofit charitable, educational, religious, and scientific organizations encourage donations by offering donors the option of receiving a "charitable gift annuity" in return for a gift of property, stock, cash or other asset. After making a donation, the recipient of such an annuity receives periodic cash payments for life from the organization. The donor thus gains a guaranteed income for life and often obtains tax advantages as well.

The organization, in turn, obtains the benefit of the investment value of the donated asset.

The state insurance commissioner (commissioner) regulates the operation of nonprofit organizations and insurers involved in the charitable annuity business. The commissioner may exempt a charitable annuity business from most of the regulatory requirements of the insurance code, provided the business meets specified statutory criteria: e.g., the maintenance of specified minimum net assets, tax exempt status, organized as a nonprofit organization, etc. If the statutory criteria are satisfied, the commissioner may issue a "certificate of exemption."

Under current law, an entity which has been granted a certificate of exemption as a charitable gift annuity business must maintain a separate reserve fund adequate to meet future payments owed under its annuity contracts. The amount of the reserve fund is determined via a formula and the maintenance of the fund is subject to regulation by the commissioner.

Summary of Amended Bill:

Reserve fund exemption: Under certain circumstances, a charitable organization or insurer may be partially or totally exempted from the requirement that it maintain a separate reserve fund adequate to meet its future contractual obligations with respect to charitable annuity payments. In lieu of maintaining such a reserve fund, a qualified organization may purchase from a licensed insurance company a single premium life annuity that is sufficient to cover all or part of the organization's obligations under its charitable gift annuity contracts.

Insurer requirements: The insurer issuing the single premium life annuity must: a) hold a certificate of authority in this state; b) be licensed in the state in which the charitable organization has its principle office; and c) be licensed in the state in which the annuity is issued.

Required documentation: To be exempted from the reserve fund requirement, an organization must: a) file with the commissioner a copy of the single premium life annuity, along with other documentation; and b) obtain a written agreement among the parties stipulating that in the event the organization cannot make the required annuity payments the annuity recipients shall receive payments directly from the insurer.

Amended Bill Compared to Second Substitute Bill:

The amended bill omits the provision prohibiting a charitable annuity organization from offering or paying commissions to employees or third parties that are based upon the solicitation, sale, issuance, or value of a particular gift annuity received by that organization.

Also omitted from the amended bill are the provisions regarding the expansion of the regulatory authority of the commissioner.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: (On amended bill) This is an important bill that will benefit many charitable organizations. It is appropriate to delete the ban on paying commissions for the solicitation of gift annuities, since the ban would have a negative effect on some charities. Also, 99 percent of charitable organizations do not pay commissions, so the ban would have little overall impact.

Testimony Against: None.

Testified: (In support of amended bill) Natalie Reber, Washington Planned Giving Council; Carrie Tellefson, Office of the Insurance Commissioner; and Greg Hanon, National Community Foundation.