Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Financial Institutions & Insurance Committee

SSB 5793

Brief Description: Changing on a temporary basis the minimum nonforfeiture amounts applicable to certain contracts of life insurance and annuities.

Sponsors: Senate Committee on Financial Services, Insurance & Housing (originally sponsored by Senators Winsley and Prentice).

Brief Summary of Substitute Bill

- Reduces from 3 percent to 1.5 percent per annum the interest rate that an insurer must use in calculating the value of an annuity contract issued on or after July 1, 2003 and before July 1, 2005.

Hearing Date: 3/25/03.

Staff: Thamas Osborn (786-7129).

Background:

An "annuity" is a type of investment product that is purchased by a consumer from an insurance company pursuant to an annuity contract. The typical annuity contract requires the purchaser of the contract (the "annuitant") to pay for the annuity via either a single premium or through installment payments. The insurance company, in turn, pays the annuitant a fixed sum, payable at specified intervals, for a specific period of time or for life. Each of the payments received by the annuitant represents a partial return of the invested capital as well as specified interest. Most annuity contracts involve the payment of up-front fees by the annuitant and require the annuitant to pay a penalty if he or she opts to obtain the cash surrender value of the annuity contract prior to the commencement of annuity payments.

The Insurance Commissioner is responsible for the regulation of annuity contracts that are offered by insurance companies in Washington. Under current law, annuity contracts must contain provisions requiring the insurer to pay a cash surrender benefit to the annuitant if the annuitant opts to "cash out" of the policy before maturity. Insurers are required to use a minimum interest rate of 3 percent per annum in calculating the value of any paid-up annuity, cash surrender, or death benefit.

Summary of Bill:

The minimum interest rate that an insurer must use in calculating the value of an annuity contract issued on or after July 1, 2003 and before July 1, 2005 is reduced from 3 percent to 1.5 percent per annum.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.