HOUSE BILL REPORT
SSB 5793

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to minimum nonforfeiture amounts applicable to certain contracts of life insurance and annuities.

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 History:
Committee Activity:
Financial Institutions & Insurance: 3/25/03, 4/4/03 [DP].

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.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Schual-Berke, Chair; Simpson, Vice Chair; Benson, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Cooper, Hatfield, Hunter, Roach and Santos.

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 purchase 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.

Testimony For: Because current interest rates are at historic lows, it is unreasonable to require insurers to pay a minimum of 3 percent interest per annum with respect to annuity contracts. This requirement is causing insurers to lose money, since they cannot recoup this amount of interest in the current market. There is a significant market for annuity products, which is likely to disappear if insurers continue to be required to pay interest that exceeds the interest they can obtain via their investments. However, a 1.5 per annum interest rate is so low that some consumers will lose money on annuities that are cashed out before maturity.

Testimony Against: None.

Testified: Senator Winsley, prime sponsor; Basil Badley, American Council of Life Insurers; and Bill Daley, Office of the Insurance Commissioner.