SENATE BILL REPORT
2SSB 5793

As Passed Senate, February 13, 2004

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 Services, Insurance & Housing: 2/20/03 [DPS]; 2/2/04 [DP2S].
Passed Senate: 3/11/03, 49-0; 2/13/04, 46-0.

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: That Second Substitute Senate Bill No. 5793 be substituted therefor, and the second substitute bill do pass.
Signed by Senators Benton, Chair; Winsley, Vice Chair; Berkey, Keiser, Murray, Prentice and Roach.

Staff: Joanne Conrad (786-7472)

Background: The Insurance Commissioner (OIC) is responsible for regulating life insurance and annuities in Washington State. Generally, these types of insurance require the insurer to pay a minimum interest rate of 3 percent of any paid-up annuity, or life insurance death benefit, if an insured person opts to "cash out" a policy prior to its maturity.

In recent years, with interest rates the lowest they have been in decades, it is believed to be financially inequitable to require insurers to pay 3 percent per year on annuity contracts, essentially requiring insurance companies to offer contractual minimum rates in excess of actual market rates.

The National Association of Insurance Commissioners (NAIC) adopts model legislation on various issues, in order to update and correct insurance regulatory concepts. The NAIC developed model legislation regarding minimum nonforfeiture rates in 2003, and more than a dozen states have adopted the model.

Summary of Bill: The NAIC model minimum nonforfeiture rate legislation is adopted in Washington State. The indexed interest rate is within a range: not less than 1 percent nor more than 3 percent, creating a statutory floor and ceiling.

For the first two years after this law's effective date, insurers can use the old law or the new one in their contracts. As of July 1, 2006, the new law will apply to all new contracts.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This bill is based on the NAIC model, enacted in 13 states and national insurance companies need state uniformity. It applies only to newly-issued policies and will not prevent a percent rate.

Testimony Against: Rates will rise, and this problem will "solve itself." There are annuity and life insurance products with viable rates now, so this bill is not needed.

Testified: Basic Badley, ACLI; Thomas Harman, insurance agent.