

By: Eiland

H.B. No. 1561

A BILL TO BE ENTITLED

AN ACT

relating to nonforfeiture amounts of certain annuities.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 1107.003(c), Insurance Code, as effective June 1, 2003, is amended to read as follows:

(c) An annuity contract that provides for a lump-sum settlement at maturity or at any other time must provide that on surrender of the contract on or before the time annuity payments begin, the company that issues the contract must [~~will~~] pay a cash surrender benefit in an amount that complies with this chapter in lieu of a paid-up annuity benefit. A company may [~~shall~~] reserve the right to defer payment of any cash surrender benefit for a period not to exceed [~~of~~] six months after demand for payment of the benefit is made with surrender of the contract.

SECTION 2. Subchapter B, Chapter 1107, Insurance Code, as effective June 1, 2003, is amended by adding Section 1107.055 to read as follows:

Sec. 1107.055. EXPIRATION OF SUBCHAPTER. This subchapter expires August 31, 2005.

SECTION 3. Chapter 1107, Insurance Code, as effective June 1, 2003, is amended by adding Subchapter D to read as follows:

SUBCHAPTER D. COMPUTATION OF MINIMUM NONFORFEITURE AMOUNT

Sec. 1107.151. MINIMUM NONFORFEITURE AMOUNT. (a) The minimum value under Subchapter C of a paid-up annuity, cash

1 surrender benefit, or death benefit shall be computed according to
2 the minimum nonforfeiture amount prescribed by this subchapter.

3 (b) The minimum nonforfeiture amount on or before the time
4 annuity payments begin is an amount equal to the accumulation of the
5 prescribed percentages of the amount of net considerations paid to
6 the date of computation, which are accumulated at an interest rate
7 determined in accordance with this subchapter, plus any additional
8 amount credited to the contract by the company, less the amount of:

9 (1) any withdrawal from or partial surrender of the
10 contract made before the minimum nonforfeiture amount is computed,
11 accumulated at interest rates determined in accordance with this
12 subchapter;

13 (2) an annual contract charge of \$50, accumulated at
14 interest rates determined in accordance with this subchapter;

15 (3) any premium tax paid by the company for the
16 contract that is not subsequently credited back to the company,
17 accumulated at interest rates determined in accordance with this
18 subchapter; and

19 (4) any indebtedness to the company on the contract,
20 including any accrued interest due on the indebtedness.

21 (c) For purposes of this section, the amount of net
22 consideration for a contract year is an amount equal to 87.5 percent
23 of the gross considerations credited to the contract during that
24 contract year.

25 Sec. 1107.152. INTEREST RATES. (a) The interest rate used
26 in determining the minimum nonforfeiture amount under this
27 subchapter on or before annuity payments begin is the lesser of:

1 (1) three percent per year; or

2 (2) except as provided by Subsection (b), the
3 five-year constant maturity treasury rate published by the Board of
4 Governors of the Federal Reserve as of a date certain, or an average
5 over a period, specified in the contract that is not more than 15
6 months before the contract issue date or the redetermination date
7 under Subsection (d), which rate is rounded to the nearest 0.0005
8 percent and reduced by 125 basis points.

9 (b) The minimum interest rate allowable under Subsection
10 (a)(2) is one percent.

11 (c) An annuity contract in which the interest rate used in
12 determining the nonforfeiture amount may be redetermined on or
13 before annuity payments begin must specify the terms and conditions
14 of a permissible redetermination of an interest rate.

15 (d) The interest rate determined under Subsection (a) shall
16 apply for an initial period and may be redetermined for additional
17 periods. The redetermination date, basis, and period, if any, must
18 be stated in the contract. As used in this subsection, "basis" is
19 the date, or average over a specified period, that produces the
20 five-year constant maturity treasury rate to be used at each
21 redetermination.

22 Sec. 1107.153. ADDITIONAL INTEREST RATE ADJUSTMENTS. The
23 commissioner by rule may adopt interest rates other than those
24 established under Section 1107.152 for annuity contracts that
25 provide substantial participation in an equity index benefit scheme
26 or other benefit schemes as the commissioner determines to be
27 appropriate.

1 Sec. 1107.154. RULES. The commissioner may adopt rules
2 necessary to implement this subchapter.

3 Sec. 1107.155. USE OF SUBCHAPTER B PROCEDURE. (a) Until
4 August 31, 2005, a company may issue and the department may review
5 annuity contracts under this subchapter or Subchapter B.

6 (b) This section expires August 31, 2005.

7 SECTION 4. This Act takes effect June 1, 2003, if it
8 receives a vote of two-thirds of all the members elected to each
9 house, as provided by Section 39, Article III, Texas Constitution.
10 If this Act does not receive the vote necessary for effect on June
11 1, 2003, this Act takes effect September 1, 2003.