

BILL ANALYSIS

C.S.H.B. 1919
By: Kent
Insurance
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Under current law, annuities with an optional maturity date are required to use the 70/10 standard when setting maturity dates. The 70/10 standard authorizes the latest maturity date to be set as the later of the annuitant's 70th birthday or 10 years from the date of purchase of the annuity. However, the 70/10 standard is not currently applicable to annuities with fixed maturity dates, so these annuities are authorized to set maturity dates at any time. The Interstate Insurance Product Regulation Commission, of which Texas is a member, sets the standards for national filing of insurance products and recently adopted the 70/10 standard for fixed maturity date annuities.

A number of carriers file contracts for fixed maturity date annuities that set the maturity date as high as 115 years of age, allowing for surrender charges far higher than charges authorized under the 70/10 standard. When an annuity company artificially sets the maturity date of an annuity at an age as high as 115 years, the company may charge higher surrender fees and pay higher upfront commissions to its agents. It is far more likely that the consumer will pass away prior to the end of the surrender charge period, leaving their beneficiaries to pay a surrender charge to liquidate the asset after death. Expanding the 70/10 standard to apply it to annuities with fixed maturity dates would end these practices.

C.S.H.B. 1919 applies the 70/10 standard to annuities with fixed maturity dates.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1919 amends a provision of the Insurance Code relating to the latest maturity date permitted by an annuity contract in determining the value of certain nonforfeiture benefits to remove the qualification that only if an annuity contract permits an election to have annuity payments begin on optional maturity dates is the latest permissible date not later than the later of the next anniversary of the contract that follows the annuitant's 70th birthday or the 10th anniversary of the contract.

C.S.H.B. 1919 makes its provisions applicable only to an annuity that is delivered, issued for delivery, or renewed on or after January 1, 2010.

EFFECTIVE DATE

September 1, 2009.

COMPARISON OF ORIGINAL AND SUBSTITUTE

C.S.H.B. 1919 removes language present in the original specifying that the determination of the value of certain nonforfeiture benefits must be calculated under certain statutes.

C.S.H.B. 1919 differs from the original, in determining the value of certain nonforfeiture benefits, by restoring statutory language struck in the original relating to the consideration of the latest optional maturity date permitted by an annuity contract.