

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 1/9/02

BILL NO. LRB 3610/2

SUBJECT SB 375

(NAME) Eben Mallon

(Street Address or Route Number) 121 E Wilson

(City and Zip Code) WA

(Representing)

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O. Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 1-09-02

BILL NO. LRB 3610

SUBJECT Miss. Ins. Law

(NAME) Changes

(Street Address or Route Number) 2 E. M. Flynn St.

(City and Zip Code) MADISON 53703

(Representing) Independent Ins. Agents Assn Professional Ins. Advisors

(Representing) WI Assoc. of Ins. & Fin. Advisors

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

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SENATE HEARING SLIP

(Please Print Plainly)

DATE: Jan 9, 2002

BILL NO. _____

SUBJECT LRB 3610

(NAME) Misha Lee

(Street Address or Route Number) 44 E. Madison St.

(City and Zip Code) Madison WI 53703

(Representing) Senby Insurance

(Representing)

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

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Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)



DATE: 1/9/02

BILL NO. LRB 3610

SUBJECT Ins laws

SENATE HEARING SLIP

(Please Print Plainly)



DATE: 1/9/02

BILL NO. LRB 3610

SUBJECT Insurance

(NAME) Eric Englund

(Street Address or Route Number) 44 E Madison #305

(City and Zip Code) Madison 53703

(Representing) Ins Insurance Alliance

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

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Madison, WI 53707-7882

(NAME) Lee Foushannon

(Street Address or Route Number)

(City and Zip Code) Madison 53703

(Representing) American Family Ins.

Speaking in Favor:

Speaking Against:

Registering in Favor:

but not speaking:

Registering Against:

but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

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Madison, WI 53707-7882



WISCONSIN LEGISLATIVE COUNCIL

*Terry C. Anderson, Director
Laura D. Rose, Deputy Director*

TO: SENATOR ROGER BRESKE

FROM: Joyce L. Kiel, Senior Staff Attorney ^{JKL}

RE: Senate Amendment __ (LRBa1279/1) to 2001 Senate Bill 375, Relating to Various Changes in the Insurance Laws

DATE: February 14, 2002

This memorandum describes Senate Amendment __ (LRBa1279/1) to 2001 Senate Bill 375, relating to various changes in the insurance laws. Senate Bill 375 was introduced by you and cosponsored by Representative Montgomery. It was referred to the Senate Committee on Insurance, Tourism, and Transportation, which held a hearing on the bill on January 9, 2002. Senate Amendment __ (LRBa1279/1) to the bill has not yet been introduced.

Current Law

Current statutes provide a formula to determine the minimum nonforfeiture amount for individual deferred fixed annuities on annuity contracts delivered or issued for delivery in Wisconsin. (This formula does not apply to contracts for annuities providing variable benefits as opposed to fixed benefits [s. 632.45 (1), Stats.].) The minimum nonforfeiture amount is pertinent in various circumstances, for example, if a contract holder stops paying premiums or requests a cash surrender benefit if permitted by his or her contract. Also, the minimum values of a paid-up annuity, cash surrender benefits, or death benefits available under such an annuity contract are based on the minimum nonforfeiture amount and, typically, may not be less than the statutory minimum nonforfeiture amount. [See s. 632.435 (1) (a) and (b), (4) (intro.), (5) to (8), and (10), Stats.]

The statutes provide a formula for determining the minimum nonforfeiture amount for fixed annuities. In general, the minimum nonforfeiture amount at any time at, or prior to, the commencement of any annuity payment must be equal to:

The accumulation up to such time at a rate of interest of 3% per year of certain percentages of the net considerations paid prior to that time.

minus

The sum of any prior withdrawals from or partial surrenders of the contract accumulated at a rate of interest of 3% per year and the amount of any indebtedness to the company on the contract, including interest due and accrued

plus

Any existing additional amounts credited by the company to the contract

The net considerations for a given contract year vary somewhat depending on whether the annuity premium payments were based on: (1) a single payment [s. 632.435 (4) (c), Stats.]; (2) a fixed schedule of payments [s. 632.435 (4) (b), Stats.]; or (3) a flexible schedule of payments [s. 632.435 (4) (a), Stats.] (copy attached).

2001 Senate Bill 375

2001 Senate Bill 375 makes no changes to current law with respect to the minimum nonforfeiture amounts for fixed annuities.

Senate Amendment — (LRBa1279/1) to 2001 Senate Bill 375

Senate Amendment __ (LRBa1279/1) to 2001 Senate Bill 375 changes the interest rate per year of the various percentages of the net considerations paid in establishing the minimum nonforfeiture amount for individual fixed annuities. Under current law, the rate of interest is 3% per year. Under the amendment, the rate of interest would be 1.5% per year in the two highlighted places in the formula shown above.

LRBa1279/1 provides that this change of interest rates first applies to annuity contracts issued on the effective date of the bill.

If you have any questions about this matter, please feel free to contact me at the Legislative Council Staff offices.

JLK:wu:rv;tlu

Attachment

Section 632.435, Stats.

632.435 Standard nonforfeiture law for individual deferred annuities. (1) In the case of contracts issued on or after the operative date of this section as defined in sub. (12), no contract of annuity shall be delivered or issued for delivery in this state unless it contains in substance the following provisions or corresponding provisions which in the opinion of the commissioner are at least as favorable to the contract holder:

(a) Upon cessation of payment of considerations under a contract the company will grant a paid-up annuity on a plan stipulated in the contract of such value as is specified in subs. (5) to (8) and (10).

(b) If a contract provides for a lump sum settlement at maturity or at any other time, upon surrender of the contract at or prior to the commencement of any annuity payments, the company will pay in lieu of any paid-up annuity benefit a cash surrender benefit of such amount as is specified in subs. (5), (6), (8) and (10). The company shall reserve the right to defer the payment of such cash surrender benefit for a period of 6 months after demand therefor with surrender of the contract.

(c) A statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of such benefits.

(d) A statement that any paid-up annuity, cash surrender or death benefits that may be available under the contract are not less than the minimum benefits required by any statute of the state in which the contract is delivered and an explanation of the manner in which such benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior withdrawals from or partial surrenders of the contract.

(e) Notwithstanding the requirements of this subsection, any deferred annuity contract may provide that if no considerations have been received under a contract for a period of 2 years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from considerations paid prior to such period would be less than \$20 monthly, the company may terminate such contract by payment in cash of the then present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by such payment shall be relieved of any further obligation under such contract.

(4) The minimum values as specified in subs. (5) to (8) and (10) of any paid-up annuity, cash surrender or death benefits available under an annuity contract shall be based upon minimum nonforfeiture amounts as follows:

(a) With respect to contracts providing for flexible considerations, the minimum nonforfeiture amount at any time at or prior to the commencement of any annuity

payments shall be equal to an accumulation up to such time at a rate of interest of 3% per year of percentages of the net considerations paid prior to such time, decreased by the sum of any prior withdrawals from or partial surrenders of the contract accumulated at a rate of interest of 3% per year and the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. The net considerations for a given contract year for purposes of this subsection shall be an amount not less than zero and shall be equal to the corresponding gross considerations credited to the contract during the contract year less an annual contract charge of \$30 and less a collection charge of \$1.25 per consideration credited to the contract during that contract year. The percentages of net considerations shall be 65% of the net consideration for the first contract year and 87.5% of the net considerations for the 2nd and later contract years, except that the percentage shall be 65% of the portion of the total net consideration for any renewal contract year which exceeds by not more than 2 times the sum of those portions of the net considerations in all prior contract years for which the percentage was 65%.

(b) With respect to contracts providing for fixed scheduled considerations, minimum nonforfeiture amounts shall be calculated on the assumption that considerations are paid annually in advance and shall be defined as for contracts with flexible considerations which are paid annually except that:

1. The portion of the net consideration for the first contract year to be accumulated shall be the sum of 65% of the net consideration for the first contract year plus 22.5% of the excess of the net consideration for the first contract year over the lesser of the net considerations for the 2nd and 3rd contract years.

2. The annual contract charge shall be the lesser of \$30 or 10% of the gross annual consideration.

(c) With respect to contracts providing for a single consideration, minimum nonforfeiture amounts shall be defined as for contracts with flexible considerations except that the percentage of net consideration used to determine the minimum nonforfeiture amount shall be equal to 90% and the net consideration shall be the gross consideration less a contract charge of \$75.

(5) Any paid-up annuity benefit available under a contract shall be such that its present value on the date annuity payments are to commence is at least equal to the minimum nonforfeiture amount on that date. Such present value shall be computed using the mortality table, if any, and the interest rate specified in the contract for determining the minimum paid-up annuity benefits guaranteed in the contract.

(6) For contracts which provide cash surrender benefits, such cash surrender benefits available prior to maturity shall not be less than the present value as of the date of surrender of that portion of the maturity value of the paid-up annuity benefit which would be provided under the contract at maturity arising from considerations paid prior to the

time of cash surrender reduced by the amount appropriate to reflect any prior withdrawals from or partial surrenders of the contract, such present value being calculated on the basis of an interest rate not more than one percent higher than the interest rate specified in the contract for accumulating the net considerations to determine such maturity value, decreased by the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. No cash surrender benefit shall be less than the minimum nonforfeiture amount at that time. The death benefit under such contracts shall be at least equal to the cash surrender benefit.

(7) For contracts which do not provide cash surrender benefits, the present value of any paid-up annuity benefit available as a nonforfeiture option at any time prior to maturity shall not be less than the present value of that portion of the maturity value of the paid-up annuity benefit provided under the contract arising from considerations paid prior to the time the contract is surrendered in exchange for, or changed to, a deferred paid-up annuity, such present value being calculated for the period prior to the maturity date on the basis of the interest rate specified in the contract for accumulating the net considerations to determine such maturity value, and increased by any existing additional amounts credited by the company to the contract. For contracts which do not provide any death benefits prior to the commencement of any annuity payments, such present values shall be calculated on the basis of such interest rate and the mortality table specified in the contract for determining the maturity value of the paid-up annuity benefit, but the present value of a paid-up annuity benefit shall be not less than the minimum nonforfeiture amount at that time.

(8) For the purpose of determining the benefits calculated under subs. (6) and (7), in the case of annuity contracts under which an election may be made to have annuity payments commence at optional maturity dates, the maturity date shall be deemed to be the latest date for which election shall be permitted by the contract, but shall not be deemed to be later than the anniversary of the contract next following the annuitant's 70th birthday or the 10th anniversary of the contract, whichever is later.

(9) Any contract which does not provide cash surrender benefits or does not provide death benefits at least equal to the minimum nonforfeiture amount prior to the commencement of any annuity payments shall include a statement in a prominent place in the contract that such benefits are not provided.

(10) Any paid-up annuity, cash surrender or death benefits available at any time, other than on the contract anniversary under any contract with fixed scheduled considerations, shall be calculated with allowance for the lapse of time and the payment of any scheduled considerations beyond the beginning of the contract year in which cessation of payment of considerations under the contract occurs.

(11) For any contract which provides within the same contract, by rider or supplemental contract provision, both annuity benefits and life insurance benefits that are in excess of the greater of cash surrender benefits or a return of the gross considerations with interest,

the minimum nonforfeiture benefits shall be equal to the sum of the minimum nonforfeiture benefits for the annuity portion and the minimum nonforfeiture benefits, if any, for the life insurance portion computed as if each portion were a separate contract. Notwithstanding subs. (5) to (8) and (10), additional benefits payable in the event of total and permanent disability, as reversionary annuity or deferred reversionary annuity benefits or as other policy benefits additional to life insurance, endowment and annuity benefits, and considerations for all such additional benefits, shall be disregarded in ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash surrender and death benefits that may be required by this section. The inclusion of such additional benefits shall not be required in any paid-up benefits, unless such additional benefits separately would require minimum nonforfeiture amounts, paid-up annuity, cash surrender and death benefits.

(12) After November 8, 1977, any company may file with the commissioner a written notice of its election to comply with this section after a specified date before the 2nd anniversary of November 8, 1977. After the filing of such notice, then upon such specified date, which shall be the operative date of this section for such company, this section shall become operative with respect to annuity contracts thereafter issued by such company. If a company makes no such election, the operative date of this section for such company shall be the 2nd anniversary of November 8, 1977.

(13) This section does not apply to any reinsurance, group annuity purchased under a retirement plan or plan of deferred compensation established or maintained by an employer (including a partnership or sole proprietorship), an employee organization or both (other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the U.S. internal revenue code, as now or hereafter amended), premium deposit fund, variable annuity, investment annuity, immediate annuity, deferred annuity contract after annuity payments have commenced, reversionary annuity or any contract which is delivered outside this state through an agent or other representative of the company issuing the contract.

PAPER BALLOT
Committee on Insurance, Tourism and Transportation

Senate Bill 375

Relating to: miscellaneous changes to the insurance laws related to the confidentiality of personal information obtained in the course of administering a state insurance fund, the statute of limitations for bringing an action against the patients compensation fund, the applicability of a timeliness requirement for the payment of insurance claims for chiropractic services, an exception from a requirement to obtain consent to incorporate certain publications by reference in administrative rules, the type of property for which the loss amount is the insurance limits, the renewal date for viatical settlement brokers' licenses, eliminating the requirement to keep a separate account for surplus lines taxes, issuance of temporary licenses for intermediaries, specifying by rule the amount of stop-loss reinsurance that a town mutual must obtain, standards related to assisting unauthorized insurers, and defining extraordinary dividends for life insurers; and granting rule-making authority.

By Senator Breske; cosponsored by Representative Montgomery.

January 11, 2002 Referred to Committee on Insurance, Tourism, and Transportation.

January 9, 2002 **PUBLIC HEARING HELD**

Present: (4) Senators Breske, Grobschmidt, A. Lasee and Schultz.
Absent: (1) Senator Baumgart.

Appearances for

- Senator Roger Breske, Author
- Eileen Mallow, OCI
- Ron Kuehn, Independent Ins. Agents Assoc.
- Ron Kuehn, Professional Ins. Agents Assoc.
- Ron Kuehn, WI Assoc. of Ins. & Financial Advisors

Appearances against

- None.

Appearances for Information Only

- None.

Registrations for

- Misha Lee, Sentry Insurance
- Eric Englund, WI Insurance Alliance
- Lee Fawshaw, American Family Insurance

Registrations against

- None.

MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1245/1 as a committee amendment to SB375.

Aye
 Nay

MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1279/1 as a committee amendment to SB375.

Aye
 Nay

MOTION: By *Senator Breske* to recommend passage of Senate Bill 375 as amended.

Aye
 Nay



Signature: _____

Date: 2-14-02

MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1245/1 as a committee amendment to SB375.

Aye
 Nay

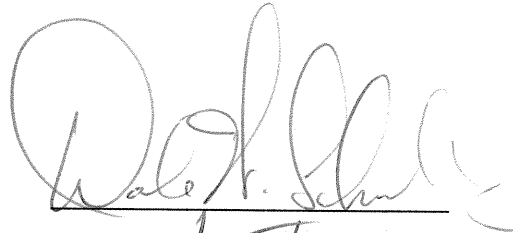
MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1279/1 as a committee amendment to SB375.

Aye
 Nay

MOTION: By *Senator Breske* to recommend passage of Senate Bill 375 as amended.

Aye
 Nay

Signature:



Date:

2/15/02

MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1245/1 as a committee amendment to SB375.

Aye
 Nay

MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1279/1 as a committee amendment to SB375.

Aye
 Nay

MOTION: By *Senator Breske* to recommend passage of Senate Bill 375 as amended.

Aye
 Nay

Signature:

Jim Baumgart

Date:

2/18/02

MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1245/1 as a committee amendment to SB375.

Aye
 Nay

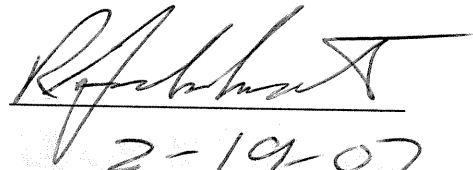
MOTION: By *Senator Breske* to recommend introduction and adoption of LRBa1279/1 as a committee amendment to SB375.

Aye
 Nay

MOTION: By *Senator Breske* to recommend passage of Senate Bill 375 as amended.

Aye
 Nay

Signature:



Date:

2-19-02