



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

### Testimony of the Connecticut Insurance Department

FTR

Before  
The Insurance and Real Estate Committee

March 3, 2011

The Connecticut Insurance Department would like to offer the following comments regarding SB 171, An Act Concerning disclosures to Beneficiaries of Life Insurance Proceeds and Retained Asset Accounts.

The Insurance Department has a concern that SB 171 is unnecessary and could lead to unintended consequences for life insurance beneficiaries at a time of grief and tremendous stress.

The Insurance Department staff and fellow insurance regulators at the National Association of Insurance Commissioners have welcomed a review of Retained Asset Accounts (RAAs), but it is important for policymakers to not rush to judgment on this issue.

We also have an obligation to not frighten grieving survivors into making hurried financial decisions. Death benefits are frequently the largest checks an individual may ever receive and come at a time of pain, when grief counselors generally advise against making immediate financial decisions. However, a large check may well force a recipient into making such a decision. Options should be available for grieving family members to sort out their debts, make memorial contributions or gifts to family members if they choose and to make intelligent and gradual financial decisions. An RAA is an option, not allowed by default that is made available for gradual decision making.

It is noteworthy in Connecticut that there has been only one recorded complaint regarding RAAs, a complaint in 2009 which the Department determined to be unjustified, meaning the company's position was upheld.

We are concerned that SB 171 may have unintended consequences with potentially unintended results.

The Insurance Department, working with a new NAIC model, has already implemented Bulletin IC-27, which is attached. We believe it clarifies items that need to be clarified, such as the ability of a beneficiary to withdraw all of the funds, lack of FDIC backing, and it requires that minimum interest rates be disclosed.

We also note that SB171 would add a new but unnecessary filing requirement, adding to the expense of the transaction and giving a new function to the Insurance Department staff at a time when we should be looking for efficiencies in the cost of doing business in Connecticut and in government.

Insurance Department staff is happy to work with committee members, legislative staff and interested persons regarding this important issue.



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

BULLETIN IC-27  
February 3, 2011

TO: All Life Insurers Licensed to Write Business in Connecticut

RE: Use of Retained Asset Accounts

The purpose of this bulletin is to establish disclosure standards regarding the payment of life insurance to a beneficiary by means of a "Retained Asset Account." "Retained Asset Account" means any mechanism whereby the settlement of proceeds payable under a life insurance policy is accomplished by the insurer<sup>1</sup> or an entity acting on behalf of the insurer depositing the proceeds into an account, with check or draft writing privileges, or through the use of a debit card or other similar instrument upon which the proceeds may be drawn, where those proceeds are retained by the insurer, pursuant to a supplementary contract not involving annuity benefits. Insurers are expected to implement these standards no later than 90 days from the date of this bulletin.

### Section 1. Explanation of Settlement Options

The insurer shall provide the beneficiary, at the time a claim is made, written information describing the settlement options available under the policy and how to obtain specific details relevant to the options.

### Section 2. Supplemental Contract

If the insurer settles benefits through a Retained Asset Account, the insurer shall provide the beneficiary with a supplemental contract, before the account is selected, that clearly discloses the rights of the beneficiary and obligations of the insurer under the supplemental contract.

### Section 3. Disclosures for Retained Asset Accounts to Beneficiaries

The insurer shall provide the following written disclosures to the beneficiary before the account is selected:

- A. Payment of the full benefit amount is accomplished by delivery of the "draft book," "check book" or similar instrument

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<sup>1</sup> By statute, an insurer is defined as "any person or combination of persons doing any kind or form of insurance business other than a fraternal benefit society . . ." Conn. Gen. Stat. §38a-1(11).

- B. One draft or check may be written to access the entire amount, including interest, of the Retained Asset Account at any time.
- C. Whether other available settlement options are preserved until the entire balance is withdrawn or the balance drops below the insurer's minimum balance requirements.
- D. A statement identifying the account as either a checking or draft account and an explanation of how the account works.
- E. Information about the account services provided and contact information where the beneficiary may request and obtain more details about such services.
- F. A description of fees charged, if applicable.
- G. The frequency of statements showing the current account balance, the interest credited, drafts/checks written and any other account activity.
- H. The minimum interest rate to be credited to the account and how the actual interest rate will be determined.
- I. The interest earned on the account may be taxable.
- J. Retained Asset Account funds held by insurance companies are not guaranteed by the Federal Deposit Insurance Corporation (FDIC), but may be guaranteed by the state life and health insurance guaranty associations. The beneficiary should be advised to contact the National Organization of Life and Health Insurance Guaranty Associations ([www.nolhga.com](http://www.nolhga.com)) to learn more about the coverage limitations to his or her account
- K. A description of the insurer's policy regarding Retained Asset Accounts that may become inactive.



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