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Testimony of the American Council of Life Insurers
before the Insurance and Real Estate Committee
Thursday, March 3, 2011

Senate Bill 171 - An Act Adopting the National Conference of Insurance Legislators' Life Insurance Beneficiaries' Bill of Rights

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, we appreciate the opportunity to offer the following comments in opposition to Senate Bill 171 - An Act Adopting the National Conference of Insurance Legislators' Life Insurance Beneficiaries' Bill of Rights.

Retained asset accounts have existed since 1982. They were developed in response to requests from employers who wanted life insurers to provide a service that would allow employees with group life insurance coverage to delay major financial decisions during an emotional and vulnerable time after the death of a loved one. Today, many insurers provide beneficiaries with this service for both group and individual life insurance policies. According to the National Association of Insurance Commissioners, there have been few if any complaints with regard to these accounts over the past two decades.

Life insurance contracts containing retained asset account provisions permit death benefit proceeds to be paid into an interest bearing account for the benefit of beneficiaries of the policy. Beneficiaries have full and immediate access to their benefits and can withdraw some or all of it at any time. The flexibility and popularity of these accounts has led to them becoming a default settlement option for many group and individual life insurance policies.

Because of the lack of consumer complaints over the past two decades, we believe that this legislation is unnecessary.

We have a number of concerns with the legislation before you. Specifically, the requirement that a beneficiary respond in writing that they wish the life insurance proceeds placed in a retained asset account is an administrative hassle for the beneficiaries and a hurdle to obtaining the benefits of these interest bearing accounts.

In addition, the annual report to the Insurance Commissioner contained in §1 (b) (4) (A)-(K) is not necessary as similar information is now required to be provided to the Insurance Department in the Annual Statement. The reports on retained asset accounts were approved by the National Association of Insurance Commissioners in December 2010 and will apply to the Annual Statement filings in 2011.

We also have concerns with the requirement to immediately return certain funds to beneficiaries, §1(b)(3). An account that has not had funds withdrawn or has not had an affirmative directive by the beneficiary is not necessarily "inactive" or forgotten by the beneficiary. Life insurers maintain communication with retained asset account holders. RAA account holders, for instance, receive a statement of account monthly, quarterly or at least annually from insurers. Account holders also receive annual tax forms on interest income earned from retained asset accounts. When companies receive returned mail from any of these many communications with the account holder, they have existing procedures to locate the account holder. In order to find missing account holders, the companies, among other tools, use third party vendors; perform social security sweeps; and, reach out to the agents who service the policies. If the language in §1(b)(3) is adopted, companies closing the accounts of beneficiaries who are benefiting from the interest bearing RAA account and who might be very upset that the company arbitrarily has emptied the account. Conversely, if companies are forced to send checks to beneficiaries who are truly "missing" this may simply result in checks being returned to the company.

Retained asset accounts are mutually beneficial for the industry and its customers. Customers gain immediate access to their death benefit proceeds, favorable interest rates from the date the account is established, a completely liquid account, relief from the need to make immediate decisions about how they want to use or invest their proceeds, protection from leaving the funds idle because of grief, and flexibility. Senate Bill 171 is unnecessary legislation - a solution looking for a problem.

Thank you for considering our position in opposition to Senate Bill 171 - An Act Adopting the National Conference of Insurance Legislators' Life Insurance Beneficiaries' Bill of Rights. Please contact Kate Kiernan at 202-624-2463 with questions.

ACLI is a Washington, D.C.-based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 242 ACLI member companies licensed to do business in Connecticut, accounting for 91 percent of the ordinary life insurance in force in the state.