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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

March 3, 2011

SB 171, An Act Concerning Disclosures To Beneficiaries Of
Life Insurance Proceeds And Retained Asset Accounts

The Insurance Association of Connecticut opposes SB 171, An Act Concerning Disclosures To Beneficiaries Of Life Insurance Proceeds And Retirement Asset Accounts, as it is simply not necessary.

Retained asset accounts (RAA) have existed for almost 30 years. They were originally developed in response to customer requests. Participants in group life insurance plans wanted a service or process to be offered that would allow them to delay making major investment decisions until their grieving period was over. Today, many insurers provide life insurance beneficiaries with this service for both group and individual policies.

If a life insurance contract has RAA provisions, death benefit proceeds may be paid into an interest bearing account for the benefit of the policy's beneficiaries. Beneficiaries have full access to the money in their RAA, and can withdraw some or all of the amount right away. Beneficiaries can transfer the RAA funds at any time to a bank account, CD or other investments.

Life insurers invest RAA funds in their general accounts (typically in low-risk, conservative investments) to ensure the money is available on demand. Interest begins to accrue immediately. The rate earned by the RAA is comparable to similar on-demand accounts.

RAAs are backed by the financial strength and claims paying ability of the life insurer, and are further protected by the Connecticut Life and Health Insurance Guaranty Association, which covers amounts up to \$500,000. The Insurance Department reviews how death benefits are paid in market conduct examinations in order to ensure the consumer is being treated properly.

Beneficiaries are fully informed of the RAA option and other settlement options, such as payment of the policy amount in lump sum or payment in a specified number of installments. When no selection is made by the beneficiary, RAAs have become the default settlement option for some insurers. Lines 39 to 41 would seem to preclude such a default, which would potentially add delays to the inception of accrual of interest on the policy benefits.

Section 1(b)(3) would require the retained asset account to be closed and funds returned to the beneficiary if there has been no activity for a specified time. We are not sure why such a requirement is necessary. The insurer keeps in constant contact with the beneficiaries through the periodic provision of account statements and tax forms. An automatic closing of the account may not be what the beneficiary desires.

We should also point out that the information that would be required by section 1(b)(4) of SB 171 to be sent to the Insurance Commissioner is already provided in annual statements filed with the Department.

RAAs are a flexible, positive option for life insurance beneficiaries. Immediate and easy access to policy proceeds, immediate earning of interest on the accounts, and the chance to delay making financial/investment decisions regarding those funds to a less stressful time, without jeopardizing the policy proceeds in any way, have made RAAs highly popular with consumers. According to the Insurance Department, there has been a grand total of one complaint filed, in the past many years, concerning RAAs.

IAC urges rejection of SB 171.