



INSURANCE ASSOCIATION OF CONNECTICUT

SUITE 607 • 21 OAK STREET, HARTFORD, CT 06106 • PHONE (860) 547-0610 • FAX (860) 547-0615

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 26, 2015

HB 6772, AN ACT REQUIRING DISCLOSURES UPON THE PURCHASE OF AN ANNUITY TO FUND PENSION BENEFITS AND EXTENDING CREDITOR PROTECTION TO AMOUNTS PAYABLE TO A PARTICIPANT OF OR BENEFICIARY UNDER SUCH ANNUITY

I am Eric George, President of the Insurance Association of Connecticut (IAC). IAC opposes Section 1 of HB 6772, AN ACT REQUIRING DISCLOSURES UPON THE PURCHASE OF AN ANNUITY TO FUND PENSION BENEFITS AND EXTENDING CREDITOR PROTECTION TO AMOUNTS PAYABLE TO A PARTICIPANT OF OR BENEFICIARY UNDER SUCH ANNUITY. IAC supports Section 2 of HB 6772.

Section 1 of HB 6772 would require insurers to make certain disclosures in connection with the purchase of any annuity contract by ERISA-covered pension plans for their participants. Section 1 of HB 6772 is premised on many faulty presumptions, ignores existing legal requirements, and creates unnecessary exposure for insurers while potentially creating confusion in the marketplace.

Section 1 of HB 6772 is premised on the misconception that retirement benefits provided through an annuity contract are suspect and are need of greater scrutiny. These transactions are already governed by and subject to strict fiduciary standards established by federal law (the Employee Retirement Income Security Act of 1974 (ERISA)), administered and enforced by the U.S. Department of Labor (USDOL). These standards require that the plan's fiduciaries discharge their duties prudently and solely in the interest of the plan's participants and beneficiaries. The annuitization of pension benefits is a well established practice that has delivered retirement security for decades used by business and government entities alike as a means to provide pension benefits.

Section 1 of HB 6772 adds nothing new in the way of protections for annuitants. To the contrary, its effect will create confusion and potentially unsupported and unjustified concerns

about the financial integrity of annuity products. Such products are subject to state insurance solvency standards and oversight; a regulatory and enforcement regime that has worked exceptionally well protecting consumers from financial risk for almost a hundred years.

Section 1's disclosure requirements are premised on a number of faulty assumptions, including the erroneous assertion that Pension Benefit Guaranty Corporation (PBGC) coverage is superior to the guarantees of an insurer and state guaranty fund protections. The PBGC fund and state insurance guaranty association system are very different and therefore difficult to compare. Coverage applies differently and is provided in different circumstances. However, because the plans are different does not render one better than the other. Insurers issuing annuity contracts are required to maintain far greater capital to back the annuity obligation than either the original plan sponsor or the PBGC, as well as follow prudent investment strategies. Insurers in general, and insurers doing business in Connecticut in particular, are also subject to significant insurance regulatory oversight. PBGC coverage acts a ceiling whereas state guaranty association coverage is the floor. The rate of full payment under a state guaranty system, and state regulation, is far higher than that under PBGC coverage. As coverage that may be provided under the state guaranty system is subject to many variables, it is not possible to predict those variables in a way that would yield any information for annuitant that is straightforward or useful.

Plan sponsors, plan fiduciaries and insurers have strived to ensure that workers have all the information they need to understand their benefits entitlements and rights in connection with annuitization transactions. The goal of insurers and plan sponsors is to make the transition as seamless as possible for the plan participants so that the employees/participants' benefits remain the same after the transaction. The USDOL, the federal agency charged with protecting the interest of pension plan participants and beneficiaries, is in the best position to address, and adopt, if necessary, changes to ensure a uniform and consistent national regulatory scheme for such transactions. State based regulation could result in potentially conflicting and confusing multistate regulation for Connecticut businesses, as well potential ERISA preemption issues.

IAC does support Section 2 of HB 6772, as this would ensure that these annuity contracts are insulated from creditor garnishment. This would ensure that Connecticut state statutes mirror the plan protections contained in ERISA.

For the above stated reasons, the IAC urges your rejection of Section 1 of HB 6772 and for the Committee to only move forward with Section 2 of HB 6772. Thank you for the opportunity to present IAC's viewpoint.