Senate

General Assembly

File No. 198

January Session, 2017

Senate Bill No. 493

Senate, March 23, 2017

The Committee on Insurance and Real Estate reported through SEN. LARSON of the 3rd Dist. and SEN. KELLY of the 21st Dist., Chairpersons of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT CONCERNING THE PURCHASE OF AN ANNUITY TO FUND PENSION BENEFITS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective January 1, 2018*) (a) As used in this section, "employer" means any person engaged in a business in this state and employing two or more employees, but does not include the state or a municipality or other political subdivision of the state, and "pension plan" has the same meaning as provided in 29 USC 1002(2)(A), as amended from time to time.

(b) On and after January 1, 2018, any insurance company that issues an allocated or unallocated group annuity contract described in subparagraph (F) of subdivision (1) of subsection (a) of section 52-321a of the general statutes to an employer in this state or a pension plan providing retirement benefits to employees or retirees in this state shall provide, not later than thirty days before the effective date of such annuity contract, the following information in writing to each employee and retiree who is an intended participant of or beneficiary under such annuity contract:

(1) A description of the differences in the protections afforded by such annuity contract and the Employee Retirement Income Security Act of 1974, as amended from time to time, or the federal Pension Benefit Guaranty Corporation, and a list of applicable state laws governing annuity payments;

(2) A statement of the amount of, scope of and conditions precedent for coverage under the Connecticut Life and Health Insurance Guaranty Association pursuant to chapter 704a of the general statutes or any subsequent corresponding guaranty association that provides coverage of annuity contracts to annuitants and beneficiaries residing in the state and any supplemental coverage provided under state law in the event of the insolvency of the insurance company;

(3) A statement of the extent to which annuity payments may become subject to claims of creditors of the insurance company or to avoidance actions taken by bankruptcy trustees;

(4) A statement of any change in the tax treatment of a participant of or beneficiary under such annuity contract;

(5) Detailed information about the annuity contract, including a schedule of all costs and expenses to be paid in connection with the issuance of such contract; and

(6) A copy of any fairness opinions or solvency analysis performed by the insurance company in connection with the selection of the annuity.

(c) For each such annuity contract issued on or after January 1, 2018, the insurance company shall provide annually the following information in writing to each employee and retiree who is a participant of or beneficiary under such annuity contract:

(1) The funding level of all assets relative to the expected liabilities

under the assumed pension benefit schedules;

(2) An investment performance summary by asset class;

(3) An investment performance detail report by asset class;

(4) A list of all expenses associated with such annuity contract, including payments made to beneficiaries and administrative expenses;

(5) Changes, if any, in actuarial assumptions; and

(6) A list of any public documents related to such annuity contract that have been filed with the Insurance Department and instructions for obtaining any such documents.

(d) No such annuity contract shall be subsequently transferred unless such transfer is made to an entity that maintains a rating equivalent to an A or better from two or more nationally recognized rating agencies.

(e) The Insurance Commissioner may adopt regulations, in accordance with the provisions of chapter 54 of the general statutes, to implement the provisions of this section, including the imposition of any penalties, fines or assessments for a violation of any provision of this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*January 1, 2018*	New section

INS *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact: None

Municipal Impact: None

Explanation

This bill requires insurers to provide certain disclosures regarding annuity contracts and allows the Department of Insurance (DOI) to adopt regulations. It results in no fiscal impact to the state or municipalities since disbursements of notices are on private entities and the DOI has expertise to adopt such regulations.

The Out Years

State Impact: None

Municipal Impact: None

OLR Bill Analysis

SB 493

AN ACT CONCERNING THE PURCHASE OF AN ANNUITY TO FUND PENSION BENEFITS.

SUMMARY

This bill requires insurers issuing certain annuity contracts to disclose (1) before the contract becomes effective, detailed information, including participants' or beneficiaries' legal protections, and (2) the contract's financial status annually. Employers may enter into group annuity contracts to fund employee retirement benefits or otherwise decrease the risk associated with managing a retirement plan.

The bill also (1) prohibits the transfer of an annuity unless it is made to an entity that maintains an A or better rating, or its equivalent, from two or more nationally recognized rating agencies and (2) authorizes the insurance commissioner to adopt implementing regulations, including any penalties, fines, or assessments for violations.

The bill applies to allocated or unallocated annuity contracts issued to Connecticut employers or pension plans providing Connecticut employees or retirees with retirement benefits and under which the:

1. original retirement benefits are protected under the federal Employee Retirement Income Security Act (ERISA) or Pension Benefit Guaranty Corporation (PBGC) and

2. group annuity contract is not protected by ERISA or the PBGC (see BACKGROUND).

Under the bill, an “employer” is any person engaged in a business in Connecticut employing two or more people, excluding the state, its political subdivisions, and municipalities.

EFFECTIVE DATE: January 1, 2018

DISCLOSURE OF PARTICIPANTS' AND BENEFICIARIES' LEGAL PROTECTIONS

For annuity contracts covered by the bill, insurers must disclose, at least 30 days before the contract's effective date, certain information in writing to employees or retirees who are participants or beneficiaries under the contract. The disclosure must include:

1. a description of the differences between the annuity contract's protections and those afforded by ERISA or the PBGC;

2. a list of applicable state laws governing annuity payments;

3. the amount and scope of and conditions precedent for coverage under (a) the Connecticut Life and Health Insurance Guaranty Association (CLHIGA, see BACKGROUND) or any subsequent corresponding guaranty association and (b) any supplemental coverage provided by state law due to an insolvent insurer;

4. the extent to which annuity payments are subject to the insurers' creditors' claims or trustees' bankruptcy avoidance actions;

5. detailed annuity contract information, including cost and expense schedules paid in connection with the contract's issuance; and

6. a copy of the insurer's fairness opinions or solvency analysis performed in connection with selecting the annuity.

For annuity contracts issued on or after January 1, 2018, the bill additionally requires annual disclosures of:

1. the funding level of all assets relative to the expected liabilities under the assumed pension benefit schedules;

2. an investment performance summary and detail report, by asset

class;

3. a list of all the annuity contract's associated expenses, including administrative expenses and beneficiaries' payments;

4. any changes in actuarial assumptions; and

5. a list of any of the annuity contract's public documents filed with the insurance department, including instructions for obtaining them.

BACKGROUND

ERISA AND PBGC

ERISA sets minimum standards for private pension plans, including standards for participation, vesting, benefit accrual, funding, and pension management responsibility.

Under ERISA, most private defined benefit pension plans must obtain pension benefit insurance through the PBGC. The PBGC pays certain benefits if these plans are terminated (e.g., when the employer can no longer meet the plan's fiduciary obligations.)

CLHIGA

By law, eligible life and health insurers must participate in and pay CLHIGA. If an insurance company defaults, the guaranty association pays valid claims of policyholders and other claimants up to the dollar limits of the applicable policy, subject to minimum and maximums fixed by state law. CLHIGA covers direct, non-group life, health, and annuity policies.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable				
Yea	16	Nay	5	(03/09/2017)