Senate Bill 426

Financial Security for Seniors Act

Senator Connie M. Leyva (D-Chino)

SUMMARY

Senate Bill 426 would provide additional protections for seniors who purchase fixed, deferred annuities. This bill would prohibit companies from charging a surrender penalty on the death benefit and require the benefit payment to be at least equal to the annuity value upon death.

BACKGROUND

This bill is limited to deferred annuities (fixed rate and equity linked) as they are more conservative than variable annuities. With a deferred annuity, an annuitant pays up-front or over time for an income stream that they will receive beginning at a specified date in the future. The annuitant often does not receive a benefit until the specified date, unless he or she passes away before that date and a beneficiary receives a death benefit.

California Insurance Code 10168.4, under the Standard Nonforfeiture Laws for Individual Deferred Annuities, requires that death benefits for deferred annuities be at least equal to the cash surrender benefit. The cash surrender benefit is generally the contract's account value minus surrender charges, and that amount is usually less than the initial premiums paid for the first few years of the contract.

PROBLEM

Insurance companies charge surrender penalties in the first few years of the contract to reduce their loss if a consumer wants their money back. For seniors, who generally buy annuities to protect themselves from out living their money, surrender penalties upon death can result in very low annualized interest or even a partial loss of premiums.

Most companies do not currently pay out a death benefit that is less than the premiums paid. However, some insurers charge surrender penalties that reduce the death benefit below the amount of paid premiums. Unfortunately, this is legal under current law.

EXAMPLE

A consumer purchases an 8-year deferred fixed annuity for a single premium of $10,000. The contract credits 3% interest per year, and has an eight year surrender period beginning at 8% and declining 1% annually. If the annuitant dies within the first year of the contract, beneficiaries could receive as little as $9,200.

If the annuitant dies within the second year of the contract, the death benefit could be as small as $9,579. Under current law, this consumer must live more than two years to be guaranteed at least his or her initial premium amount as a death benefit. Clearly, early death exposes the beneficiaries of seniors to low effective interest or even loss, which SB 426 seeks to remedy.

SOLUTION

SB 426 would require that the death benefit be at least equal to the annuity amount or the accumulation value on deferred annuities issued to consumers 65 years of age or older. This bill would also prohibit companies from charging a surrender penalty on the death benefit payment for annuities issued to seniors.

This proposal protects seniors and their families and places safeguards on an insurance product that is intended to provide seniors with financial security.

SB 426 would not affect variable or immediate annuities. Immediate annuities cannot be surrendered and this proposal is not intended to affect the more aggressive variable products.

Applies to contracts issued on or after January 1, 2016.

STATUS

Signed – Takes effect January 1, 2016

SUPPORT

Insurance Commissioner Dave Jones (Sponsor)
California Advocates for Nursing Home Reform
California Health Advocates
Congress of California Seniors
Elder Financial Protection Network

CONTACT

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