

COMMITTEE ON TRANSPORTATION  
HOUSE OF REPRESENTATIVES AMENDMENTS TO S.B. 1495  
(Reference to Senate engrossed bill)

1 Strike everything after the enacting clause and insert:

2 "Section 1. Section 20-1232, Arizona Revised Statutes, is amended to  
3 read:

4 20-1232. Standard nonforfeiture law for individual deferred  
5 annuities

6 A. ~~NO~~ A contract of annuity, except as stated in subsection K ~~OF~~  
7 ~~THIS SECTION~~, shall NOT be delivered or issued for delivery in this state  
8 unless the contract contains in substance the following provisions or  
9 corresponding provisions that in the opinion of the director are at least  
10 as favorable to the contract holder on cessation of payment of  
11 considerations under the contract:

12 1. That ~~upon~~ ON cessation of payment of considerations under a  
13 contract, or on the written request of the contract owner, the company  
14 shall grant a paid-up annuity benefit on a plan stipulated in the contract  
15 of such value as is specified in subsections D, E, F, G and I ~~OF THIS~~  
16 ~~SECTION~~.

17 2. If a contract provides for a lump sum settlement at maturity, or  
18 at any other time, that ~~upon~~ ON surrender of the contract at or ~~prior to~~  
19 ~~BEFORE~~ the commencement of any annuity payments, the company shall pay in  
20 lieu of a paid-up annuity benefit a cash surrender benefit of such AN  
21 amount as is specified in subsections D, E, G and I ~~OF THIS SECTION~~. The  
22 company, within thirty days of the date of maturity as prescribed in the  
23 contract, shall notify the annuity owner of the owner's rights under the  
24 contract at the time of maturity of the contract, including the right to  
25 receive the cash value benefit in a lump sum, if applicable. The company

1 shall pay any amounts due under the contract within thirty days ~~from~~ AFTER  
2 the date the amount becomes payable. The company may reserve the right to  
3 defer the payment of the cash surrender benefit for a period not to exceed  
4 one hundred eighty days after demand for such A cash surrender benefit with  
5 surrender of the contract after making written request and receiving  
6 written approval from the director. The annuity owner shall be notified  
7 within fifteen days ~~of~~ AFTER the date that any request for withdrawal is  
8 received that the company has requested a deferral pursuant to this  
9 paragraph. In making its request to the director, the company shall  
10 address the necessity and equitability to all policyholders of the deferral  
11 and the reason why payment cannot take place within the time period  
12 required under this paragraph ~~from~~ AFTER the date the annuity benefit  
13 becomes due. Any transfer of monies to another annuity company designated  
14 by the contract owner pursuant to section 1035 of the internal revenue code  
15 shall take place within thirty days after all required forms relating to  
16 the transfer are filed with the original annuity company.

17 3. A statement of the mortality table, if any, and interest rates  
18 used in calculating any minimum paid-up annuity, cash surrender or death  
19 benefits that are guaranteed under the contract, together with sufficient  
20 information to determine the amounts of the benefits.

21 4. A statement that any paid-up annuity, cash surrender or death  
22 benefits that may be available under the contract are not less than the  
23 minimum benefits required by any statute of the state in which the contract  
24 is delivered and an explanation of the manner in which the benefits are  
25 altered by the existence of any additional amounts credited by the company  
26 to the contract, any indebtedness to the company on the contract or any  
27 prior withdrawals from or partial surrenders of the contract.

28 B. Notwithstanding the requirements of subsection A OF THIS SECTION,  
29 a deferred annuity contract may provide that if no considerations have been  
30 received under a contract for a period of two full years and the portion of  
31 the paid-up annuity benefit at maturity on the plan stipulated in the  
32 contract arising from prior considerations paid would be less than ~~twenty~~  
33 ~~dollars~~ \$20 monthly, the company, at its option, may terminate the contract

1 by payment in cash of the then present value of the portion of the paid-up  
2 annuity benefit, calculated on the basis on the mortality table, if any,  
3 and interest rate specified in the contract for determining the paid-up  
4 annuity benefit, and by this payment shall be relieved of any further  
5 obligation under the contract.

6 C. The minimum values as specified in subsections D, E, F, G and I  
7 ~~OF THIS SECTION~~ of any paid-up annuity, cash surrender or death benefits  
8 available under an annuity contract shall be based ~~upon~~ ~~ON~~ minimum  
9 nonforfeiture amounts prescribed as follows:

10 1. The minimum nonforfeiture amount at any time at or before the  
11 commencement of any annuity payments is equal to an accumulation up to that  
12 time at rates of interest, as prescribed in paragraph 2 of this subsection,  
13 of the net considerations paid before that time, decreased by the sum of  
14 all of the following:

15 (a) Any prior withdrawals from or partial surrenders of the contract  
16 accumulated at rates of interest as prescribed in paragraph 2 of this  
17 subsection.

18 (b) An annual contract charge of ~~fifty dollars~~ ~~\$50~~, accumulated at  
19 rates of interest as prescribed in paragraph 2 of this subsection.

20 (c) Any premium tax paid by the company for the contract,  
21 accumulated at rates of interest as prescribed in paragraph 2 of this  
22 subsection.

23 (d) The amount of any indebtedness to the company on the contract,  
24 including interest due and accrued.

25 For the purposes of this paragraph, the net considerations for a given  
26 contract year used to define the minimum nonforfeiture amount is an amount  
27 equal to eighty-seven and one-half ~~per cent~~ ~~PERCENT~~ of the gross  
28 considerations credited to the contract during that contract year.

29 2. The interest rate used in determining minimum nonforfeiture  
30 amounts is an annual rate of interest determined as the lesser of three ~~per~~  
31 ~~cent~~ ~~PERCENT~~ per annum and the following, which shall be specified in the  
32 contract if the interest rate will be reset:

1 (a) The five-year constant maturity treasury rate reported by the  
2 federal reserve as of a date, or average over a period, rounded to the  
3 nearest one-twentieth of one ~~per cent~~ PERCENT, specified in the contract ~~no~~  
4 NOT longer than fifteen months before the contract issue date or  
5 redetermination date under subdivision (d) of this paragraph.

6 (b) Reduced by one hundred twenty-five basis points.

7 (c) Where the resulting interest rate is not less than  
8 FIFTEEN-HUNDREDTHS OF one ~~per cent~~ PERCENT.

9 (d) The interest rate shall apply for an initial period and may be  
10 redetermined for additional periods. The redetermination date, basis and  
11 period, if any, shall be stated in the contract. The basis is the date or  
12 average over a specified period that produces the value of the five-year  
13 constant maturity treasury rate to be used at each redetermination date.

14 3. During the period or term that a contract provides substantive  
15 participation in an equity indexed benefit, it may increase the reduction  
16 described in paragraph 2, subdivision (b) of this subsection by up to an  
17 additional one hundred basis points to reflect the value of the equity  
18 index benefit. The present value at the contract issue date, and at each  
19 redetermination date thereafter, of the additional reduction shall not  
20 exceed the market value of the benefit. The director may require a  
21 demonstration that the present value of the additional reduction does not  
22 exceed the market value of the benefit. Lacking such a demonstration that  
23 is acceptable to the director, the director may disallow or limit the  
24 additional reduction.

25 4. The director may adopt rules to implement paragraph 3 of this  
26 subsection and to provide for further adjustments to the calculation of  
27 minimum nonforfeiture amounts for contracts that provide substantive  
28 participation in an equity index benefit and for other contracts where the  
29 director determines that adjustments are justified.

30 D. Any paid-up annuity benefit available under a contract shall be  
31 such that its present value on the date annuity payments are to commence is  
32 at least equal to the minimum nonforfeiture amount on that date. The  
33 present value shall be computed using the mortality table, if any, and the

1 interest rate specified in the contract for determining the minimum paid-up  
2 annuity benefits guaranteed in the contract.

3 E. For contracts that provide cash surrender benefits, the cash  
4 surrender benefits available ~~prior to~~ BEFORE maturity shall not be less  
5 than the present value as of the date of surrender of that portion of the  
6 maturity value of the paid-up annuity benefit that would be provided under  
7 the contract at maturity arising from considerations paid prior to the time  
8 of cash surrender reduced by the amount appropriate to reflect any prior  
9 withdrawals from or partial surrenders of the contract, the present value  
10 being calculated on the basis of an interest rate not more than one ~~per~~  
11 ~~cent~~ PERCENT higher than the interest rate specified in the contract for  
12 accumulating the net considerations to determine maturity value, decreased  
13 by the amount of any indebtedness to the company on the contract, including  
14 interest due and accrued, and increased by any existing additional amounts  
15 credited by the company to the contract. ~~In no event shall~~ Any cash  
16 surrender benefit SHALL NOT be less than the minimum nonforfeiture amount  
17 at that time. The death benefit under such contracts shall be at least  
18 equal to the cash surrender benefit.

19 F. For contracts that do not provide cash surrender benefits, the  
20 present value of any paid-up annuity benefit available as a nonforfeiture  
21 option at any time ~~prior to~~ BEFORE maturity shall not be less than the  
22 present value of that portion of the maturity value of the paid-up annuity  
23 benefit provided under the contract arising from considerations paid ~~prior~~  
24 ~~to~~ BEFORE the time the contract is surrendered in exchange for, or changed  
25 to, a deferred paid-up annuity, the present value being calculated for the  
26 period ~~prior to~~ BEFORE the maturity date on the basis of the interest rate  
27 specified in the contract for accumulating the net considerations to  
28 determine maturity value and increased by any additional amounts credited  
29 by the company to the contract. For contracts that do not provide any  
30 death benefits ~~prior to~~ BEFORE the commencement of any annuity payments,  
31 the present values shall be calculated on the basis of such interest rate  
32 and the mortality table specified in the contract for determining the  
33 maturity value of the paid-up annuity benefit. However, ~~in no event shall~~

1 the present value of a paid-up annuity benefit ~~SHALL NOT~~ be less than the  
2 minimum nonforfeiture amount at that time.

3 G. For the purpose of determining the benefits calculated under  
4 subsections E and F ~~OF THIS SECTION~~, in the case of annuity contracts under  
5 which an election may be made to have annuity payments commence at optional  
6 maturity dates, the maturity date shall be deemed to be the latest date for  
7 which election shall be ~~permitted~~ ~~ALLOWED~~ by the contract, but shall not be  
8 deemed to be later than the anniversary of the contract next following the  
9 annuitant's seventieth birthday or the tenth anniversary of the contract,  
10 whichever is later.

11 H. Any contract that does not provide cash surrender benefits or  
12 does not provide death benefits at least equal to the minimum nonforfeiture  
13 amount ~~prior to~~ ~~BEFORE~~ the commencement of any annuity payments shall  
14 include a statement in a prominent place in the contract that such benefits  
15 are not provided.

16 I. Any paid-up annuity, cash surrender or death benefits available  
17 at any time, other than on the contract anniversary under any contract with  
18 fixed scheduled considerations, shall be calculated with allowance for the  
19 lapse of time and the payment of any scheduled considerations beyond the  
20 beginning of the contract year in which cessation of payment of  
21 considerations under the contract occurs.

22 J. For a contract ~~which~~ ~~THAT~~ provides, within the same contract by  
23 rider or supplemental contract provision, both annuity benefits and life  
24 insurance benefits that are in excess of the greater of cash surrender  
25 benefits or a return of the gross considerations with interest, the minimum  
26 nonforfeiture benefits shall be equal to the sum of the minimum  
27 nonforfeiture benefits for the annuity portion and the minimum  
28 nonforfeiture benefits, if any, for the life insurance portion computed as  
29 if each portion were a separate contract. Notwithstanding the provisions  
30 of subsections D, E, F, G and I ~~OF THIS SECTION~~, additional benefits  
31 payable in the event of total and permanent disability, as reversionary  
32 annuity or deferred reversionary annuity benefits or as other policy  
33 benefits additional to life insurance, endowment and annuity benefits, and

1 considerations for all such additional benefits, shall be disregarded in  
2 ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash  
3 surrender and death benefits that may be required by this section. The  
4 inclusion of such additional benefits shall not be required in any paid-up  
5 benefits, unless the additional benefits separately would require minimum  
6 nonforfeiture amounts, paid-up annuity, cash surrender and death benefits.

7 K. This section shall not apply to any reinsurance, group annuity  
8 purchased under a retirement plan or plan of deferred compensation  
9 established or maintained by an employer, including a partnership or sole  
10 proprietorship, or by an employee organization, or by both, other than a  
11 plan providing individual retirement accounts or individual retirement  
12 annuities under section 408 of the internal revenue code, as now or  
13 hereafter amended, premium deposit fund, variable annuity, investment  
14 annuity, immediate annuity, any deferred annuity contract after annuity  
15 payments have commenced, or reversionary annuity, nor to any contract ~~which~~  
16 ~~THAT~~ shall be delivered outside this state through an insurance producer or  
17 other representative of the company issuing the contract.

18 L. The director may adopt rules to implement this section."

19 Amend title to conform

And, as so amended, it do pass

FRANK P. CARROLL  
CHAIRMAN

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