

State of Arizona  
Senate  
Forty-eighth Legislature  
First Regular Session  
2007

# SENATE BILL 1073

AN ACT

AMENDING SECTION 20-1232, ARIZONA REVISED STATUTES; RELATING TO INDIVIDUAL DEFERRED ANNUITIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

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. ~~Except as provided in subsection L,~~ No contract of annuity, except  
7 as stated in subsection K, shall be delivered or issued for delivery in this  
8 state unless the contract contains in substance the following provisions or  
9 corresponding provisions that in the opinion of the director are at least as  
10 favorable to the contract holder on cessation of payment of considerations  
11 under the contract:

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

16 2. If a contract provides for a lump sum settlement at maturity, or at  
17 any other time, that upon surrender of the contract at or prior to the  
18 commencement of any annuity payments, the company shall pay in lieu of a  
19 paid-up annuity benefit a cash surrender benefit of such amount as is  
20 specified in subsections D, E, G and I. **THE COMPANY, WITHIN THIRTY DAYS OF**  
21 **THE DATE OF MATURITY AS PRESCRIBED IN THE CONTRACT, SHALL NOTIFY THE ANNUITY**  
22 **OWNER OF THE OWNER'S RIGHTS UNDER THE CONTRACT AT THE TIME OF MATURITY OF THE**  
23 **CONTRACT, INCLUDING THE RIGHT TO RECEIVE THE CASH VALUE BENEFIT IN A LUMP**  
24 **SUM, IF APPLICABLE. THE COMPANY SHALL PAY ANY AMOUNTS DUE UNDER THE CONTRACT**  
25 **WITHIN THIRTY DAYS FROM THE DATE THE AMOUNT BECOMES PAYABLE.** The company may  
26 reserve the right to defer the payment of the cash surrender benefit for a  
27 period not to exceed ~~six months~~ **ONE HUNDRED EIGHTY DAYS** after demand for such  
28 cash surrender benefit with surrender of the contract after making written  
29 request and receiving written approval from the director. The ~~request~~  
30 **ANNUITY OWNER SHALL BE NOTIFIED WITHIN FIFTEEN DAYS OF THE DATE THAT ANY**  
31 **REQUEST FOR WITHDRAWAL IS RECEIVED THAT THE COMPANY HAS REQUESTED A DEFERRAL**  
32 **PURSUANT TO THIS PARAGRAPH. IN MAKING ITS REQUEST TO THE DIRECTOR, THE**  
33 **COMPANY shall address the necessity and equitability to all policyholders of**  
34 **the deferral AND THE REASON WHY PAYMENT CANNOT TAKE PLACE WITHIN THE TIME**  
35 **PERIOD REQUIRED UNDER THIS PARAGRAPH FROM THE DATE THE ANNUITY BENEFIT**  
36 **BECOMES DUE. ANY TRANSFER OF MONIES TO ANOTHER ANNUITY COMPANY DESIGNATED BY**  
37 **THE CONTRACT OWNER PURSUANT TO SECTION 1035 OF THE INTERNAL REVENUE CODE**  
38 **SHALL TAKE PLACE WITHIN THIRTY DAYS AFTER ALL REQUIRED FORMS RELATING TO THE**  
39 **TRANSFER ARE FILED WITH THE ORIGINAL ANNUITY COMPANY.**

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

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

8           B. Notwithstanding the requirements of subsection A, a deferred  
9 annuity contract may provide that if no considerations have been received  
10 under a contract for a period of two full years and the portion of the  
11 paid-up annuity benefit at maturity on the plan stipulated in the contract  
12 arising from prior considerations paid would be less than twenty dollars  
13 monthly, the company, at its option, may terminate the contract by payment in  
14 cash of the then present value of the portion of the paid-up annuity benefit,  
15 calculated on the basis on the mortality table, if any, and interest rate  
16 specified in the contract for determining the paid-up annuity benefit, and by  
17 this payment shall be relieved of any further obligation under the contract.

18           C. The minimum values as specified in subsections D, E, F, G and I of  
19 any paid-up annuity, cash surrender or death benefits available under an  
20 annuity contract shall be based upon minimum nonforfeiture amounts prescribed  
21 as follows:

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

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

30           (b) An annual contract charge of fifty dollars, accumulated at rates  
31 of interest as prescribed in paragraph 2 of this subsection.

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

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

36 For the purposes of this paragraph, the net considerations for a given  
37 contract year used to define the minimum nonforfeiture amount is an amount  
38 equal to eighty-seven and one-half per cent of the gross considerations  
39 credited to the contract during that contract year.

40           2. The interest rate used in determining minimum nonforfeiture amounts  
41 is an annual rate of interest determined as the lesser of three per cent per  
42 annum and the following, which shall be specified in the contract if the  
43 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, specified in the contract no longer  
4 than fifteen months before the contract issue date or redetermination date  
5 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 one per cent.

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

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

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

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

34 E. For contracts that provide cash surrender benefits, the cash  
35 surrender benefits available prior to maturity shall not be less than the  
36 present value as of the date of surrender of that portion of the maturity  
37 value of the paid-up annuity benefit that would be provided under the  
38 contract at maturity arising from considerations paid prior to the time of  
39 cash surrender reduced by the amount appropriate to reflect any prior  
40 withdrawals from or partial surrenders of the contract, the present value  
41 being calculated on the basis of an interest rate not more than one per cent  
42 higher than the interest rate specified in the contract for accumulating the  
43 net considerations to determine maturity value, decreased by the amount of  
44 any indebtedness to the company on the contract, including interest due and  
45 accrued, and increased by any existing additional amounts credited by the

1 company to the contract. In no event shall any cash surrender benefit be  
2 less than the minimum nonforfeiture amount at that time. The death benefit  
3 under such contracts shall be at least equal to the cash surrender benefit.

4 F. For contracts that do not provide cash surrender benefits, the  
5 present value of any paid-up annuity benefit available as a nonforfeiture  
6 option at any time prior to maturity shall not be less than the present value  
7 of that portion of the maturity value of the paid-up annuity benefit provided  
8 under the contract arising from considerations paid prior to the time the  
9 contract is surrendered in exchange for, or changed to, a deferred paid-up  
10 annuity, the present value being calculated for the period prior to the  
11 maturity date on the basis of the interest rate specified in the contract for  
12 accumulating the net considerations to determine maturity value and increased  
13 by any additional amounts credited by the company to the contract. For  
14 contracts that do not provide any death benefits prior to the commencement of  
15 any annuity payments, the present values shall be calculated on the basis of  
16 such interest rate and the mortality table specified in the contract for  
17 determining the maturity value of the paid-up annuity benefit. However, in no  
18 event shall the present value of a paid-up annuity benefit be less than the  
19 minimum nonforfeiture amount at that time.

20 G. For the purpose of determining the benefits calculated under  
21 subsections E and F, in the case of annuity contracts under which an election  
22 may be made to have annuity payments commence at optional maturity dates, the  
23 maturity date shall be deemed to be the latest date for which election shall  
24 be permitted by the contract, but shall not be deemed to be later than the  
25 anniversary of the contract next following the annuitant's seventieth  
26 birthday or the tenth anniversary of the contract, whichever is later.

27 H. Any contract that does not provide cash surrender benefits or does  
28 not provide death benefits at least equal to the minimum nonforfeiture amount  
29 prior to the commencement of any annuity payments shall include a statement  
30 in a prominent place in the contract that such benefits are not provided.

31 I. Any paid-up annuity, cash surrender or death benefits available at  
32 any time, other than on the contract anniversary under any contract with  
33 fixed scheduled considerations, shall be calculated with allowance for the  
34 lapse of time and the payment of any scheduled considerations beyond the  
35 beginning of the contract year in which cessation of payment of  
36 considerations under the contract occurs.

37 J. For a contract which provides, within the same contract by rider or  
38 supplemental contract provision, both annuity benefits and life insurance  
39 benefits that are in excess of the greater of cash surrender benefits or a  
40 return of the gross considerations with interest, the minimum nonforfeiture  
41 benefits shall be equal to the sum of the minimum nonforfeiture benefits for  
42 the annuity portion and the minimum nonforfeiture benefits, if any, for the  
43 life insurance portion computed as if each portion were a separate  
44 contract. Notwithstanding the provisions of subsections D, E, F, G and I,  
45 additional benefits payable in the event of total and permanent disability,

1 as reversionary annuity or deferred reversionary annuity benefits or as other  
2 policy benefits additional to life insurance, endowment and annuity benefits,  
3 and considerations for all such additional benefits, shall be disregarded in  
4 ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash  
5 surrender and death benefits that may be required by this section. The  
6 inclusion of such additional benefits shall not be required in any paid-up  
7 benefits, unless the additional benefits separately would require minimum  
8 nonforfeiture amounts, paid-up annuity, cash surrender and death benefits.

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

20 L. The director may adopt rules to implement this section.