

House Engrossed Senate Bill

~~graduated driver licenses; education program.~~
(now: annuity contracts; nonforfeiture; interest rates)

State of Arizona
Senate
Fifty-fifth Legislature
First Regular Session
2021

CHAPTER 378
SENATE BILL 1495

AN ACT

AMENDING SECTION 20-1232, ARIZONA REVISED STATUTES; RELATING TO 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. ~~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
26 shall pay any amounts due under the contract within thirty days ~~from~~ AFTER
27 the date the amount becomes payable. The company may reserve the right to
28 defer the payment of the cash surrender benefit for a period not to exceed
29 one hundred eighty days after demand for such A cash surrender benefit
30 with surrender of the contract after making written request and receiving
31 written approval from the director. The annuity owner shall be notified
32 within fifteen days ~~of~~ AFTER the date that any request for withdrawal is
33 received that the company has requested a deferral pursuant to this
34 paragraph. In making its request to the director, the company shall
35 address the necessity and equitability to all policyholders of the
36 deferral and the reason why payment cannot take place within the time
37 period required under this paragraph ~~from~~ AFTER the date the annuity
38 benefit becomes due. Any transfer of monies to another annuity company
39 designated by the contract owner pursuant to section 1035 of the internal
40 revenue code shall take place within thirty days after all required forms
41 relating to the transfer are filed with the original annuity company.

42 3. A statement of the mortality table, if any, and interest rates
43 used in calculating any minimum paid-up annuity, cash surrender or death
44 benefits that are guaranteed under the contract, together with sufficient
45 information 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
4 contract is delivered and an explanation of the manner in which the
5 benefits are altered by the existence of any additional amounts credited
6 by the company to the contract, any indebtedness to the company on the
7 contract or any prior withdrawals from or partial surrenders of the
8 contract.

9 B. Notwithstanding the requirements of subsection A ~~OF THIS~~
10 ~~SECTION~~, a deferred annuity contract may provide that if no considerations
11 have been received under a contract for a period of two full years and the
12 portion of the paid-up annuity benefit at maturity on the plan stipulated
13 in the contract arising from prior considerations paid would be less than
14 ~~twenty dollars~~ \$20 monthly, the company, at its option, may terminate the
15 contract by payment in cash of the then present value of the portion of
16 the paid-up annuity benefit, calculated on the basis on the mortality
17 table, if any, and interest rate specified in the contract for determining
18 the paid-up annuity benefit, and by this payment shall be relieved of any
19 further obligation under the contract.

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

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

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

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

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

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

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

43 2. The interest rate used in determining minimum nonforfeiture
44 amounts is an annual rate of interest determined as the lesser of three

1 ~~per cent~~ PERCENT per annum and the following, which shall be specified in
2 the contract if the interest rate will be reset:

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

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

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

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

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

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

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

38 E. For contracts that provide cash surrender benefits, the cash
39 surrender benefits available ~~prior to~~ BEFORE maturity shall not be less
40 than the present value as of the date of surrender of that portion of the
41 maturity value of the paid-up annuity benefit that would be provided under
42 the contract at maturity arising from considerations paid prior to the
43 time of cash surrender reduced by the amount appropriate to reflect any
44 prior withdrawals from or partial surrenders of the contract, the present
45 value being calculated on the basis of an interest rate not more than one

1 ~~per cent~~ PERCENT higher than the interest rate specified in the contract
2 for accumulating the net considerations to determine maturity value,
3 decreased by the amount of any indebtedness to the company on the
4 contract, including interest due and accrued, and increased by any
5 existing additional amounts credited by the company to the contract. ~~in~~
6 ~~no event shall~~ Any cash surrender benefit SHALL NOT be less than the
7 minimum nonforfeiture amount at that time. The death benefit under such
8 contracts shall be at least equal to the cash surrender benefit.

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

26 G. For the purpose of determining the benefits calculated under
27 subsections E and F OF THIS SECTION, in the case of annuity contracts
28 under which an election may be made to have annuity payments commence at
29 optional maturity dates, the maturity date shall be deemed to be the
30 latest date for which election shall be ~~permitted~~ ALLOWED by the contract,
31 but shall not be deemed to be later than the anniversary of the contract
32 next following the annuitant's seventieth birthday or the tenth
33 anniversary of the contract, whichever is later.

34 H. Any contract that does not provide cash surrender benefits or
35 does not provide death benefits at least equal to the minimum
36 nonforfeiture amount ~~prior to~~ BEFORE the commencement of any annuity
37 payments shall include a statement in a prominent place in the contract
38 that such benefits are not provided.

39 I. Any paid-up annuity, cash surrender or death benefits available
40 at any time, other than on the contract anniversary under any contract
41 with fixed scheduled considerations, shall be calculated with allowance
42 for the lapse of time and the payment of any scheduled considerations
43 beyond the beginning of the contract year in which cessation of payment of
44 considerations under the contract occurs.

1 J. For a contract ~~which~~ THAT provides, within the same contract by
2 rider or supplemental contract provision, both annuity benefits and life
3 insurance benefits that are in excess of the greater of cash surrender
4 benefits or a return of the gross considerations with interest, the
5 minimum nonforfeiture benefits shall be equal to the sum of the minimum
6 nonforfeiture benefits for the annuity portion and the minimum
7 nonforfeiture benefits, if any, for the life insurance portion computed as
8 if each portion were a separate contract. Notwithstanding the provisions
9 of subsections D, E, F, G and I OF THIS SECTION, additional benefits
10 payable in the event of total and permanent disability, as reversionary
11 annuity or deferred reversionary annuity benefits or as other policy
12 benefits additional to life insurance, endowment and annuity benefits, and
13 considerations for all such additional benefits, shall be disregarded in
14 ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash
15 surrender and death benefits that may be required by this section. The
16 inclusion of such additional benefits shall not be required in any paid-up
17 benefits, unless the additional benefits separately would require minimum
18 nonforfeiture amounts, paid-up annuity, cash surrender and death benefits.
19 K. This section shall not apply to any reinsurance, group annuity
20 purchased under a retirement plan or plan of deferred compensation
21 established or maintained by an employer, including a partnership or sole
22 proprietorship, or by an employee organization, or by both, other than a
23 plan providing individual retirement accounts or individual retirement
24 annuities under section 408 of the internal revenue code, as now or
25 hereafter amended, premium deposit fund, variable annuity, investment
26 annuity, immediate annuity, any deferred annuity contract after annuity
27 payments have commenced, or reversionary annuity, nor to any contract
28 ~~which~~ THAT shall be delivered outside this state through an insurance
29 producer or other representative of the company issuing the contract.
30 L. The director may adopt rules to implement this section.

APPROVED BY THE GOVERNOR MAY 21, 2021.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 21, 2021.