STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall
Sacramento, California 95814

BULLETIN NO. 2005-2
June 1, 2005

TO: **All Admitted Life Insurance Companies and Other Interested Persons**

SUBJECT: **LIFE and ANNUITY CONSUMER PROTECTION FUND - New Requirements**

The purpose of this Bulletin is to inform affected licensees and interested members of the public of the Department's implementation of AB 2316 (Chapter 835, Statutes of 2004) effective January 1, 2005.

Summary of AB 2316

- Creates the **Life and Annuity Consumer Protection Fund (Section 10127.17 CIC)**.
- Requires all admitted insurers to pay a fee not to exceed $1 for each individual life insurance policy with an initial and/or intended face amount of $15,000 or more issued to a California resident.
- Requires all admitted insurers to pay a fee not to exceed $1 for each individual annuity contract with an initial and/or intended value of $15,000 or more issued to a California resident.
- The fee shall be assessed on new policies and annuities issued from January 1, 2005 through December 31, 2009. A life policy or annuity contract that is funded by proceeds from the surrender of an existing life policy or annuity is deemed a new issue subject to the fee.
- 50% of the funds shall be distributed to local DAs for investigating and prosecuting life insurance and annuity financial abuse cases.
- 50% of the funds shall be distributed within the department for investigating and prosecuting financial abuse, responding to consumer inquiries and complaints related to life insurance and annuity products, and educating consumers in all aspects of life insurance and annuity products.
- This law is effective January 1, 2005 until January 1, 2010.

Implementation Timeline

January 1, 2005	AB 2316 (Section 10127.17 CIC) becomes effective.
January 1, 2005	Insurers collect data on applicable new life insurance policies and annuity contracts as of 01/01/2005.
July 18, 2005	CDI invoices insurers for new policies issued from 1/12005--6/30/2005.
August 19, 2005	Payment on invoice due from insurers.
January 20, 2006	CDI invoices insurers for new policies issued from 7/1/2005—12/31/2005
February 17, 2006	Payment on invoice due from insurers.

Requirements for Life Insurers

1) Maintain and report data on new life insurance policies issued as of January 1, 2005 with an initial and/or intended face amount of $15,000 or more;
2) Maintain and report data on new annuity contracts sold as of January 1, 2005 with an initial and/or intended value of $15,000 or more (see the attached Annuity Value Criteria);
3) Complete and submit the Semi-Annual Assessment Reporting Forms by the required date;
4) Pay your invoice for the $1.00 assessment on new life policies and annuities by the required due date.

Questions regarding this Bulletin may be directed to:

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JOHN GARAMENDI
INSURANCE COMMISSIONER

ATTACHMENT TO BULLETIN 2005-2

ANNUITY VALUE CRITERIA

Insurance Code Section 10127.17: Requires insurers to pay the fee determined by the Insurance Commissioner on all life insurance policies and annuities with a value of **$15,000 or more.**

General Guidelines: In calculating Annuity Value, all guarantees are to be considered, including, for example, guaranteed minimum accumulation benefits and guaranteed minimum withdrawal benefits.

If an annuity contract provides for optional maturity dates (the maturity date is the date annuity payments are scheduled to begin), the date to be used to calculate the maximum account and annuitization values shall be the later of: 1) the contract anniversary following the annuitant's 70th birthday, or 2) the end of the tenth year after the date of issuance of the annuity.

If a deferred annuity has a guaranteed minimum income benefit, the amount to be used in the determination of the Annuity Value is the greater of: 1) the commuted value of the guaranteed income benefit, using valuation interest and mortality, 2) the account value, if any, or 3) the annuitization value, if any.

Criteria for determining Annuity Value: For the purposes of this section, insurers shall use the following criteria:

- **Single premium immediate annuities:**

  Use the gross contribution.

- **Single premium deferred annuities:**

  Use the greater of: 1) the initial gross contribution, or 2) the account value (or the annuitization value if greater than the account value) that is to be used to determine annuity payments at the maturity date based on the guarantees in the contract.

- **Fixed premium deferred annuities:**

  Use the greater of: 1) the sum of all monthly or other required gross contributions payable through the maturity date specified in the annuity, or 2) the maximum account value (or the annuitization value if greater than the account value) that is to be used to determine annuity payments at the maturity date based on the guarantees in the contract.

- **Flexible premium deferred annuities:**

  Use the greater of: 1) the sum of the initial gross contribution and all other required or permitted gross contributions payable through the maturity date specified in the annuity, or 2) the account value (or the annuitization value if greater than the account value) to be used to determine annuity payments at the maturity date based on the guarantees in the contract and on the assumption that all permitted contributions would be made.

NOTE: *For an annuity which does not readily fit into one of the forms specified above, insurers shall use a procedure that is consistent with the above methods.*