

Honolulu, Hawaii

F2413, 2006

RE: H.B. No. 2969
H.D. 1

Honorable Calvin K.Y. Say
Speaker, House of Representatives
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which was referred H.B. No. 2969 entitled:

"A BILL FOR AN ACT RELATING TO ANNUITIES,"

begs leave to report as follows:

The purpose of this bill is to protect senior consumers who are considering the purchase or exchange of an annuity by adding a new part to the Insurance Code entitled "Senior Protection in Annuity Transactions," which establishes standards and procedures for insurer and insurance producer recommendations of annuities. The bill also:

- (1) Removes variable annuity contracts from the jurisdiction of the Securities Commissioner;
- (2) Leaves the Insurance Commissioner with sole authority under state law to regulate these products; and
- (3) Allows the Insurance Commissioner to consult with and use the resources of the Securities Commissioner when making a final determination regarding variable annuities under the Senior Protection in Annuity Transactions law.

The American Council of Life Insurers, State Farm Insurance Company, and the National Association of Insurance and Financial Advisors provided testimony in support of the bill. The Business



Registration Division of the Department of Commerce and Consumer Affairs opposed the measure.

Your Committee finds that the protections for senior consumers in this bill are based on the National Association of Insurance Commissioner's Senior Protection in Annuity Transactions Model Regulation adopted in 2003. Its standards and procedures will provide insurers and insurance producers with clear guidelines for recommendations to seniors about these products, and will facilitate regulation by the Insurance Division.

Your Committee further finds that a variable annuity contract is one in which the insurer agrees to make periodic payments to the buyer beginning immediately or at some future date. A variable annuity contract is purchased either through a single payment or a series of payments. The product offers a range of investment options and its value will vary depending on the performance of the options chosen, which are typically mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.

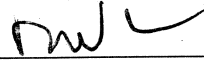
In leaving regulation of variable annuities with the Insurance Commissioner, Hawaii would join the 34 states that exclude the variable annuity as a security. Removing duplicative regulation of this product will reduce the costs of compliance for this industry, which is regulated both at the state level and at the national level by the Securities and Exchange Commission and the National Association of Securities Dealers.

Your Committee has amended this measure by changing the effective date to January 1, 2007. Technical, nonsubstantive amendments were also made for purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2969, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2969, H.D. 1, and be referred to the Committee on Judiciary.



Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



ROBERT N. HERKES, Chair



