

STAND. COM. REP. NO. 1828-06

Honolulu, Hawaii

Apr. 124 2006

RE: S.C.R. No. 55

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 S.C.R. No. 55 entitled:

"SENATE CONCURRENT RESOLUTION REQUESTING THE LEGISLATIVE REFERENCE BUREAU TO CONDUCT A STUDY ON THE ISSUE OF RECLASSIFYING VARIABLE ANNUITY CONTRACTS AS INSURANCE RATHER THAN SECURITIES,"

begs leave to report as follows:

The purpose of this concurrent resolution is to determine the best method of providing consumers of variable annuity contracts with regulatory protection from unscrupulous sales practices by requesting the Legislative Reference Bureau (LRB) to examine how other states are addressing the issue of reclassifying a variable annuity contract as insurance rather than as a security.

The American Council of Life Insurers and National Association of Insurance and Financial Advisors Hawaii supported this measure. State Farm Insurance Companies supported the intent of this measure and requested an amendment. The Insurance Division of the Department of Commerce and Consumer Affairs and LRB commented on this measure.

Your Committee finds that variable annuity contracts have characteristics of both insurance and securities. They are a tax-deferred investment that typically invests in stock and bond mutual funds. They permit the investor to receive periodic payments from the investment, and provide a death benefit to the

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beneficiary if the investor dies during the accumulation phase of the contract.

These contracts can be unsuitable for certain investors, particularly seniors and those approaching retirement, because of risks such as short-term market movements and steep penalties for early withdrawals. Hawaii currently regulates variable annuity contracts as both insurance and a security. However, several bills were introduced this session to remove these contracts from securities regulation, in part because current regulation is said to be duplicative. This concurrent resolution seeks to examine some of the issues raised by these bills.

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 concurs with the intent and purpose of S.C.R. No. 55 and recommends its adoption.

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



ROBERT N. HERKES, Chair



