

SB 924 (Roth)

Senior Annuity Suitability Criteria

Summary:

Under existing law insurance companies must comply with specific requirements regarding the purchase, exchange, or replacement of an annuity recommended to a senior consumer. The insurance company must have reasonable grounds to believe that the annuity transaction would be suitable for the senior based on certain information including: age, annual income, and whether the consumer has a reverse mortgage. This bill would add the requirement that an insurance company ascertain whether the purchase of an annuity is connected to an attempt to qualify for a government benefit. If a senior is trying to qualify for a government benefit, then the insurance company must determine whether or not it is a suitable transaction.

Background:

Insurance sales agents offer a variety of annuity products to seniors. In some instances the annuities may not be suitable for the senior's needs. One sales practice of considerable concern is the sale of annuities to qualify wealthy seniors for government benefits intended for low-wealth or impoverished seniors. The government benefits intended for indigent seniors are generally referred to as "needs based" benefits. On occasion, unscrupulous agents will attempt to mislead seniors into believing that these government benefits are actually "entitlements" and, in order to qualify it is necessary to liquidate assets and convert them into annuities they claim are "government friendly". For seniors, these annuities tie up assets for years and can create hefty surrender penalties if the contract is broken. For the citizens of California, it wastes tax dollars, and affects the integrity of the program to allow seniors to access these programs when they shouldn't. The California legislature has addressed part of the problem by enacting statutes that focus on the practices of insurance agents. Current law prohibits insurance agents from selling annuities to seniors to qualify for Medi-Cal benefits under certain circumstance (Ins. Code § 789.9), or to qualify for the Veteran's Aid and Attendance Benefit (Ins. Code § 785.5).

Solution

What is needed is a statute making the insurance companies that produce the annuities responsible for determining whether or not their annuities are being sold for the purpose of obtaining government benefits, and if so, if the transaction is suitable for the senior consumer. Since it is illegal for California insurance agents to sell annuities to seniors if the purpose of the sale is for the senior consumer to qualify for the Veteran's Aid and Attendance Benefit (Insurance Code § 785.5), or under certain circumstances to qualify for Medi-Cal (Insurance Code § 789.9), it stands to reason that insurance companies who create products that are being sold to seniors be responsible for finding out if the transaction is an attempt to qualify the senior for a government benefit and if so, whether the annuity is suitable for the senior. To accomplish this Insurance Code § 10509.913 should be amended to add the question of "whether or not the consumer is intending to apply for a government benefit."

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