

(3) The remainder shall be allocated by the agency among one or more issuers from any bond use category with regard to the criteria specified in RCW 39.86.130.

(4) Should any bond use category no longer be subject to the state ceiling due to federal or state provisions of law, the agency shall divide the amount of that initial allocation among the remaining categories as necessary or appropriate with regard to the criteria specified in RCW 39.86.130.

(5)(a) Prior to September 1 of each calendar year, any available portion of an initial allocation may be allocated or reallocated only to an issuer within the same bond use category, except that the remainder category, or portions thereof, may be allocated at any time to any bond use category.

(b) Beginning September 1 of each calendar year, the agency may allocate or reallocate any available portion of the state ceiling to any bond use category with regard to the criteria specified in RCW 39.86.130.

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CHAPTER 51

[House Bill No. 2901]

LIFE AND DISABILITY INSURANCE GUARANTY ASSOCIATION

AN ACT Relating to life and disability insurance; amending RCW 48.32A.010, 48.32A.020, 48.32A.030, 48.32A.060, 48.32A.080, and 48.32A.090; and declaring an emergency.

Be it enacted by the Legislature of the State of Washington:

Sec. 1. Section 1, chapter 259, Laws of 1971 ex. sess. and RCW 48.32A.010 are each amended to read as follows:

The purpose of this chapter is the creation of funds arising from assessments upon all insurers authorized to transact life or disability insurance business in the state of Washington, to be used to assure to the extent prescribed herein the performance of the insurance contractual obligations of insurers becoming insolvent to residents of this state (~~and, in the case of domestic insurers, to residents of other jurisdictions as well~~), and to promote thereby the stability of domestic insurers. In the judgment of the legislature, the foregoing purpose not being capable of accomplishment by a corporation created under general laws, the creation of the nonprofit association hereinafter in this chapter described is deemed essential for the protection of the general welfare.

Sec. 2. Section 2, chapter 259, Laws of 1971 ex. sess. and RCW 48.32A.020 are each amended to read as follows:

This chapter shall apply as follows to life insurance policies, disability insurance policies, and annuity contracts of liquidating insurers, other than

separate account variable policies and contracts authorized by chapter 48.18A RCW:

~~(1) ((To all such policies and contracts of a domestic insurer, without regard to the place of residence or domicile of the policy or contract owner, insured, annuitant, beneficiary, or payee:~~

~~(2)))~~ To all such policies and contracts of a domestic, foreign, or alien insurer authorized to transact such insurance or annuity business in this state at the time such policies or contracts were issued or at the time of entry of the order of liquidation of the insolvent insurer, and of which the policy or contract owner, insured, annuitant, beneficiary, or payee is a resident of and domiciled within this state. ~~((With respect to group policies or group contracts of such foreign or alien insurers;))~~ This chapter shall apply only as to the insurance or annuities thereunder of individuals who are residents of and domiciled within this state. The place of residence or domicile shall be determined as of the date of entry of the order of liquidation against the insurer.

~~((3)))~~ (2) To policies and contracts only of insolvent insurers with respect to which an order of liquidation is entered after May 21, 1971.

~~((4)))~~ (3) The obligations of the association created under this chapter shall apply only as to contractual obligations of the insurer under insurance policies and annuity contracts, and shall be no greater than such obligations of the insolvent insurer at the time of entry of the order of liquidation ~~((except, that the association shall have no liability with respect to any portions of such policies or contracts to the extent that the death benefit coverage on any one life exceeds an aggregate of three hundred thousand dollars:~~

~~(5) This chapter shall not apply to fraternal benefit societies, health care service contractors, or to insurance or liability assumed by the liquidating insurer under a contract of reinsurance other than of bulk reinsurance)).~~ However, the liability of the association shall in no event exceed:

(a) With respect to any one life, regardless of the number of policies or contracts:

(i) Five hundred thousand dollars in life insurance death benefits, including any net cash surrender and net cash withdrawal values for life insurance;

(ii) Five hundred thousand dollars in disability insurance benefits, including any net cash surrender and net cash withdrawal values; or

(iii) Five hundred thousand dollars in the present value of allocated annuity benefits and annuities established under section 403(b) of the United States internal revenue code.

The association shall not be liable to expend more than five hundred thousand dollars in the aggregate with respect to any one individual under this subsection; or

(b) With respect to any one contract owner covered by any unallocated annuity contract, including governmental retirement plans established under section 401 or 457 of the United States internal revenue code, five million dollars in benefits, irrespective of the number of such contracts held by that contract owner.

(4) This chapter shall not apply to:

(a) Fraternal benefit societies;

(b) Health care service contractors;

(c) Insurance or liability assumed by the liquidating insurer under a contract of reinsurance other than bulk reinsurance;

(d) Any unallocated annuity contract issued to an employee benefit plan protected under the federal pension benefit guaranty corporation; or

(e) Any portion of any unallocated annuity contract which is not issued to or in connection with a specific employee, union, association of natural persons benefit plan, or a government lottery.

Sec. 3. Section 3, chapter 259, Laws of 1971 ex. sess. and RCW 48-32A.030 are each amended to read as follows:

Within the meaning of this chapter:

(1) "Association" means "the Washington life and disability insurance guaranty association".

(2) "Board" means the board of directors of the Washington life and disability insurance guaranty association.

(3) "Commissioner" means the insurance commissioner of this state.

(4) "Policies" means life or disability insurance policies; "contracts" means annuity contracts and contracts supplemental to such insurance policies and annuity contracts.

(5) "Liquidating insurer" means an insurer with respect to which an order of liquidation has been entered by a court of competent jurisdiction.

(6) "Fund" means a guaranty fund provided for in RCW 48.32A.080.

(7) "Account" means any one of the three guaranty fund accounts created under RCW 48.32A.080(1).

(8) "Assessment" means a charge made upon an insurer by the board under this chapter for payment into a guaranty fund. The charge shall constitute a legal liability of the insurer so assessed.

(9) "Contributor" means an insurer which has paid an assessment.

(10) "Certificate" means a certificate of contribution provided for in RCW 48.32A.090.

(11) "Unallocated annuity contract" means any annuity contract or group annuity certificate which is not issued to and owned by an individual, except to the extent of any annuity benefits guaranteed to an individual by an insurer under such contract or certificate.

Sec. 4. Section 6, chapter 259, Laws of 1971 ex. sess. as amended by section 2, chapter 133, Laws of 1975 1st ex. sess. and RCW 48.32A.060 are each amended to read as follows:

(1) The association shall, subject to such terms and conditions as it may impose with the approval of the commissioner, assume, reinsure, or guarantee the performance of the policies and contracts, for a resident of the state, of any domestic life or disability insurer with respect to which an order of liquidation has been entered by any court of general jurisdiction in the state of Washington, and shall have power to receive, own, and administer any assets acquired in connection with such assumption, reinsurance, or guaranty. The association, as to any such policy or contract under which there is no default in payment of premiums subsequent to such assumption, reinsurance, or guaranty, shall make or cause to be made prompt payment of the benefits due under the terms of the policy or contract.

(2) The association shall make or cause to be made payment of the death, endowment, or disability insurance or annuity benefits due under the terms of each policy or contract insuring the life or health of, or providing annuity or other benefits for, a resident of this state which was issued or assumed by a foreign or alien insurer with respect to which an order of liquidation has been entered by a court of competent jurisdiction in the state or country of its domicile.

(3) In determining benefits to be paid with respect to the policies and contracts of a particular liquidating insurer the board may give due consideration to amounts reasonably recoverable or deductible because of the contingent liability, if any, of policyholders of the insurer (if a mutual insurer) or recoverable because of the assessment liability, if any, of the insurer's stockholders (if a stock insurer).

(4) With respect to an insolvent domestic insurer, the board shall have power to petition the court in which the delinquency proceedings are pending for, and the court shall have authority to order and effectuate, such modifications in the terms, benefits, values, and premiums thereafter to be in effect of policies and contracts of the insurer as may reasonably be necessary to effect a bulk reinsurance of such policies and contract in a solvent insurer.

In the event, after the entry of an order of liquidation, an assessment on the members is necessary to increase the assets of the insolvent company to an extent that a bulk reinsurance of such policies may be effected, the court shall have authority to order such assessment.

(5) In addition to any other rights of the association acquired by assignment or otherwise, the association shall be subrogated to the rights of any person entitled to receive benefits under this chapter against the liquidating insurer, or the receiver, rehabilitator, liquidator, or conservator, as the case may be, under the policy or contract with respect to which a payment is made or guaranteed, or obligation assumed by the association pursuant to this section, and the association may require an assignment to it of such rights by any such persons as a condition precedent to the receipt by such person of payment of any benefits under this chapter.

(6) For the purpose of carrying out its obligations under this chapter, the association shall be deemed to be a creditor of the liquidating insurer to the extent of assets attributable to covered policies and contracts reduced by any amounts to which the association is entitled as a subrogee. All assets of the liquidating insurer attributable to covered policies and contracts shall be used to continue all covered policies and contracts and pay all contractual obligations of the liquidating insurer as required by this chapter. Assets attributable to covered policies and contracts, as used in this subsection, are those in that proportion of the assets which the reserves that should have been established for such policies and contracts bear to the reserves that should have been established for all insurances written by the liquidating insurer.

(7) The association shall have the power to petition the superior court for an order appointing the commissioner as receiver of a domestic insurer upon any of the grounds set forth in RCW 48.31.030.

Sec. 5. Section 8, chapter 259, Laws of 1971 ex. sess. as amended by section 5, chapter 119, Laws of 1975-'76 2nd ex. sess. and RCW 48.32A-.080 are each amended to read as follows:

(1) For purposes of administration and assessment, the association shall establish and maintain (~~four~~) three guaranty fund accounts:

(a) The life insurance and annuity account (~~(; (b) the disability insurance account, (c) the annuity account, and (d) the general account)~~), which shall be divided into three subaccounts:

(i) The life insurance subaccount;

(ii) The allocated annuity subaccount; and

(iii) The unallocated annuity subaccount which shall include contracts qualified under section 403(b) of the United States internal revenue code;

(b) The disability insurance account; and

(c) The general account.

(2) For the purpose of providing the funds necessary to carry out the powers and duties of the association, the board shall assess the member insurers, separately for each account, at such times and for such amounts as the board finds necessary. The board shall collect the assessment after thirty days written notice to the member insurers before payment is due. The board may charge reasonable interest for delinquent payment of the assessment.

(3) (a) The amount of any assessment for each account and subaccount shall be determined by the board, and shall be divided among the accounts and subaccounts in the proportion that the premiums received by the liquidating insurer on the policies or contracts covered by each account and subaccount bears to the premiums received by such insurer on all covered policies and contracts.

(b) Assessments against member insurers for each account and subaccount shall be in the proportion that the premiums received on business in this state by each assessed member insurer on policies or contracts covered by each account or subaccount bears to such premiums received on business in this state by all assessed member insurers.

(c) Assessments for funds to meet the requirements of the association with respect to a particular liquidating insurer shall not be made until necessary, in the board's opinion, to implement the purposes of this chapter; and in no event shall such an assessment be made with respect to such insurer until an order of liquidation has been entered against the insurer by a court of competent jurisdiction of the insurer's state or country of domicile. Computation of assessments under this subsection shall be made with a reasonable degree of accuracy, recognizing that exact determination may not always be possible.

(d) The board may make an assessment of up to one hundred fifty dollars for each member insurer to be deposited in the general account and used for administrative and general expenses in carrying out the provisions of this chapter.

~~(4) (The association may abate or defer, in whole or in part, the assessment of a member insurer if, in the opinion of the board, payment of the assessment would endanger the ability of the insurer to fulfill its contractual obligations. The total of all assessments upon a member insurer for each account shall not in any one calendar year exceed two percent of such insurer's premiums in this state on the policies or contracts covered by the account))~~ (a) The total of all assessments upon a member insurer for the life and annuity account and for each subaccount shall not in any one calendar year exceed two percent and for the disability account shall not in any one calendar year exceed two percent of such insurer's average premiums received in this state on the policies and contracts covered by the account during the three calendar years preceding the entry of the order of liquidation against the liquidating insurer.

(b) The board may provide a method of allocating funds among claims, whether relating to one or more impaired or insolvent insurers, when the maximum assessment will be insufficient to cover anticipated claims.

(c) If a one percent assessment for any subaccount of the life and annuity account in any one year does not provide an amount sufficient to carry out the responsibilities of the association, then pursuant to subsection (3) of this section, the board shall access all subaccounts of the life and annuity account for the necessary additional amount, subject to the maximum stated in (a) of this subsection.

(5) The association may abate or defer, in whole or in part, the assessment of a member insurer if, in the opinion of the board, payment of the assessment would endanger the ability of the insurer to fulfill its contractual obligations. In the event an assessment against a member insurer is abated

or deferred, in whole or in part, (~~because of the limitations set forth in subsection (4) of this section;~~) the amount by which such assessment is abated or deferred may be assessed against the other member insurers in a manner consistent with the basis for assessments set forth in this section. If the maximum assessment, together with the other assets of the association in an account, does not provide in any one year an amount sufficient to carry out the responsibilities of the association with respect to such account, the necessary additional funds shall be assessed as soon thereafter as permitted by this chapter.

(6) The amount in a fund shall be kept at such a sum as in the opinion of the board will enable the association to meet the immediate obligations and liabilities of such fund. Whenever in the opinion of the board the amount in a fund is in excess of such immediate obligations and liabilities, with the approval of the commissioner the association may distribute such excess by retirement of certificates previously issued against the fund. Such distribution shall be made pro rata upon the basis of outstanding certificates, except that by unanimous consent of all directors and with the approval of the commissioner any other reasonable method of retirement of such certificates may be adopted.

(7) As used in this section, "premiums" are those for the calendar year preceding the entry of the order of liquidation as to a particular liquidating insurer, and shall be direct gross insurance premiums and annuity considerations received on policies and contracts to which this chapter applies, less return premiums and considerations and less dividends paid or credited to policyholders.

(8) Upon dissolution of a fund by the repeal of this chapter or otherwise, the fund shall be distributed in the same manner as is provided for the repayment or retirement of certificates. If the amount in the fund at the time of dissolution is in excess of outstanding certificates issued against the fund, such excess shall be distributed among contributing member insurers in such equitable manner as is approved by the commissioner.

Sec. 6. Section 9, chapter 259, Laws of 1971 ex. sess. as last amended by section 2, chapter 183, Laws of 1977 ex. sess. and RCW 48.32A.090 are each amended to read as follows:

(1) The association shall issue to each insurer paying an assessment under this chapter certificates of contribution, in appropriate form and terms as prescribed or approved by the commissioner, for the amounts so paid into the respective funds. All outstanding certificates against a particular fund shall be of equal dignity and priority without reference to amounts or dates of issue.

(2) An outstanding certificate of contribution shall be shown by the insurer in its financial statements as an admitted asset for such amount and period of time as the commissioner may approve: PROVIDED, That unless a longer period has been allowed by the commissioner the insurer shall in

any event at its option have the right to so show a certificate of contribution as an admitted asset at percentages of original face amount for calendar years as follows:

100% for the calendar year of issuance;
~~((90%))~~ 80% for the first calendar year after the year of issuance;
~~((80%))~~ 60% for the second calendar year after the year of issuance;
~~((70%))~~ 40% for the third calendar year after the year of issuance;
~~((60%))~~ 20% for the fourth calendar year after the year of issuance;
~~((50% for the fifth calendar year after the year of issuance;~~
~~40% for the sixth calendar year after the year of issuance;~~
~~30% for the seventh calendar year after the year of issuance;~~
~~20% for the eighth calendar year after the year of issuance;~~
~~10% for the ninth calendar year after the year of issuance;))~~ and
 0% for the ~~((tenth))~~ fifth and subsequent calendar years after the year of issuance.

Notwithstanding the foregoing, if the value of a certificate of contribution is or becomes less than one thousand dollars, the entire amount may be written off by the insurer in that year.

(3) The insurer shall offset the amount written off by it in a calendar year under subsection (2) of this section against its premium tax liability to this state accrued with respect to business transacted in such year.

(4) Any sums recovered by the association representing sums which have theretofore been written off by contributing insurers and offset against premium taxes as provided in subsection (3) of this section, shall be paid by the association to the commissioner and by him deposited with the state treasurer for credit to the general fund of the state of Washington.

(5) No distribution to stockholders, if any, of a liquidating insurer shall be made unless and until the total amount of assessments levied by the association with respect to such insurer have been fully recovered by the association.

NEW SECTION. Sec. 7. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. 8. This act is necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect immediately.

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