

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 231 (Delegate Hammen)

Health and Government Operations

Finance

Life Insurers - Funding Agreements - Priority in Liquidation Proceedings

This bill grants holders of funding agreements the same priority as policyholders, beneficiaries, and insureds in a liquidation proceeding for an insurer.

Fiscal Summary

State Effect: Altering claimant priority for insolvent insurers would not materially affect the finances or operations of the Maryland Insurance Administration.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Maryland Insurance Commissioner has authority to administer an insurer's insolvency and distribute funds to those who might have claims against the insurer.

Generally, in the event of an insurer insolvency where there are no known or potential claims of the federal government, the priority of claims distribution is: (1) administrative expenses; (2) the first \$500 of compensation or wages owed to an officer or employee of the insurer; (3) claims made by policyholders, beneficiaries, or insureds; (4) liability claims against insureds; and (5) guaranty fund claims.

In the event of an insurer insolvency where there are known or potential claims of the federal government, the priority of claims distribution is: (1) administrative expenses; (2)

without priority between these types of claims, claims made by policyholders, beneficiaries, or insureds; liability claims against insureds; and guaranty fund claims; (3) federal government claims; (4) the first \$500 of compensation or wages owed to an officer or employee of the insurer; (5) State or local tax claims; and (6) all other claims of general creditors.

Subject to the Commissioner's approval, an insurer authorized to deliver or issue for delivery an annuity contract may deliver or issue for delivery funding agreements to specified entities. The issuance or delivery of a funding agreement is not the business of life insurance, annuities, health insurance, surety insurance, marine insurance, wet marine and transportation insurance, title insurance, or reinsurance. However, it is an insurance business.

Background: A funding agreement is a contract that an insurer enters into with another party. A funding agreement is typically used to fund employee benefit plans, structured settlements, and other types of plans or programs. The insurer issues the funding agreement contract for a sum of money, and the contract guarantees a rate of return that is specified in the contract.

Additional Information

Prior Introductions: None.

Cross File: SB 129 (Senator Astle) – Finance.

Information Source(s): Maryland Automobile Insurance Fund, Maryland Insurance Administration, Department of Legislative Services

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ncs/ljm

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