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SFA BILL ANALYSIS

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House Bill 5999 (as passed by the House)
Sponsor: Representative Andrew Richner
House Committee: Insurance and Financial Services
Senate Committee: Financial Services

Date Completed: 9-24-02

CONTENT

The bill would amend Section 4072 of the Insurance Code to lower the minimum nonforfeiture rate for individual deferred annuity contracts from 3% to 1.5% per year until 2005. The bill also would redefine the term "maturity value" to refer to an annual interest rate of 1.5%, instead of 3%, until 2005. (Section 4072 is known as the "standard nonforfeiture law for individual deferred annuities". In general, an annuity is a contract issued by a financial institution, including an insurance company, that repays the capital invested over a set period of time plus interest. The minimum nonforfeiture rate is the minimum interest rate guarantee that an insurer may use in an individual fixed annuity contract to determine its cash value.)

Presently, for contracts providing for flexible considerations, the minimum nonforfeiture amount at any time until annuity payments begin must be equal to an accumulation up to that time at an interest rate of 3% per annum of percentages of the net considerations paid before that time, increased by any existing additional amounts credited by the company to the contract, and decreased by the sum of the following:

-- Prior withdrawals from or partial surrenders of the contract accumulated at an annual interest rate of 3%.
-- The amount of any indebtedness to the company on the contract, including interest due and accrued.

Under the bill, beginning on its effective date and continuing until January 1, 2005, the minimum nonforfeiture amount for these contracts would be determined in the same manner, except that the interest rate would be 1.5%.

Under Section 4072, the "maturity value" of paid-up annuity benefits is used to determine the amount of a contract's cash surrender benefits. The Code states that the benefits available before maturity may not be less than the present value as of the date of surrender of that portion of the maturity value of the paid-up annuity benefit arising from considerations paid before the time of cash surrender. "Maturity value" means an accumulation up to the maturity date at the rate of interest guaranteed in the contract for accumulating the net considerations to determine the maturity value, but not less than 3% per annum, of the percentages of the net considerations paid before that time, decreased by the sum of prior withdrawals from or partial surrenders of the contract accumulated at the rate of interest guaranteed in the contract for accumulating net considerations to determine the maturity value but not less than 3% per annum and the amount of any indebtedness to the company on the contract, and increased by excess interest previously credited by the company on the contract.

Under the bill, beginning on its effective date and continuing until January 1, 2005, "maturity value" would be defined in the same manner, except that the bill would refer to an interest rate of 1.5% per annum.

MCL 500.4072 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Maria Tyszkiewicz