

**ANNUITIES: MINIMUM  
NONFORFEITURE RATE**

**House Bill 5050**  
**Sponsor: Rep. David Robertson**  
**Committee: Insurance**

**Complete to 9-29-03**

**A SUMMARY OF HOUSE BILL 5050 AS INTRODUCED 9-23-03**

The bill would amend the section of the Insurance Code known as the Standard Nonforfeiture Law to put in place a new set of provisions to regulate the minimum nonforfeiture amount for individual deferred annuity contracts as of January 1, 2005. The bill would permit insurance companies to use the existing regulations or these new regulations until January 1, 2005, at which time the new provisions would automatically govern.

Generally speaking, the nonforfeiture law requires that an individual annuity contract provide the contract holder with a paid-up annuity or cash surrender benefits of a minimum amount if the contract holder surrenders the policy (e.g. stops making payments) during the accumulation period. The nonforfeiture amount is the deferred annuity's accumulated value, minus certain charges (such as prior withdrawals and loans), based on interest rate minimums regulated by statute.

Public Act 635 of 2002 (House Bill 5999) amended the code to establish temporary regulations of the minimum nonforfeiture amount for individual deferred annuity contracts, with the regulations to apply to contracts issued between December 23, 2002 and January 1, 2005. The changes were made in recognition of low market interest rates. Among other things, Public Act 635 reduced from 3 percent to 1.5 percent the minimum interest rate used to determine minimum nonforfeiture amounts.

Under House Bill 5050, the interest rate used in determining minimum nonforfeiture amounts would be an annual rate of the lesser of three percent per annum and the following, as specified in the contract if the interest rate is to be reset: 1) the five-year constant maturity treasury rate reported by the Federal Reserve as of a date, or average over a period, rounded to the nearest one-twentieth of one percent, specified in the contract no longer than 15 months before the contract issue date or redetermination date; 2) reduced by 125 basis points (or more for equity indexed benefits, as described later); and 3) with a resulting interest rate not less than one percent. The interest rate would apply for an initial period and could be redetermined for additional periods. The redetermination date, basis, and period, if any, would have to be stated in the contract.

The bill would provide that during the period or term that a contract provided substantive participation in an equity-indexed benefit, the contract could provide for an increase in the reduction in basis points of up to an additional 100 basis points to reflect the value of the equity index benefit. The present value at the contract issue date, and at each redetermination date after the issue date, of the additional reduction could not exceed the market value of the benefit. The

commissioner of the Office of Financial and Insurance Services could require a demonstration that the present value of the additional reduction did not exceed the market value of the benefit and could disallow or limit the additional reduction if the demonstration was unacceptable. The commissioner could adopt rules to implement these provisions and to provide for further adjustments to the calculation of minimum nonforfeiture amounts for contracts that provide substantive participation in an equity index benefit and for other contracts where the commissioner determined adjustments were justified.

MCL 500.4072

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■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.