

MINIMUM NONFORFEITURE RATE FOR ANNUITIES

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Senate Bill 624 as passed by the Senate

Sponsor: Sen. Lana Theis

House Committee: Insurance

Senate Committee: Insurance and Banking

Complete to 4-27-22

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Senate Bill 624 would amend section 4072 of the Insurance Code, known as the Standard Nonforfeiture Law for Individual Deferred Annuities, to change the minimum interest rate used in determining the minimum nonforfeiture value of individual deferred annuities.

An annuity is an insurance contract under which an individual pays premiums into the annuity and the insurer pays money out of the annuity in a series of payments made at equal intervals for a specific length of time or for the life of an individual or individuals.¹ Often the premium paid is a lump sum—for example, in investing one's savings to provide an income stream after retirement. Under a deferred annuity, premiums are paid and accumulated for some time before any money is paid out.

Generally speaking, the Standard Nonforfeiture Law requires that an individual deferred annuity contract must 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.

In recent years, market interest rates have fallen so low that these statutory minimums are unrealistic. In December 2020, the National Association of Insurance Commissioners (NAIC)² amended its standard nonforfeiture model law to lower the minimum nonforfeiture interest rate. Michigan's Standard Nonforfeiture Law is based on this NAIC model law, and Senate Bill 624 reflects this recent amendment.³

Currently, the Insurance Code provides that the minimum value of any paid-up annuity, cash surrender, or death benefits available under an annuity contract before payments from the annuity have begun must equal an accumulation up to that time, at the rates of interest described below, of the net considerations (87.5% of the amount paid in each year), minus any prior loans

¹ See https://www.naic.org/documents/government_relations_annuities_issue_brief.pdf

² The NAIC is a nonprofit organization governed by the chief insurance regulators of every state, the District of Columbia, and the territories of Puerto Rico, Guam, the U.S. Virgin Islands, the Northern Mariana Islands, and American Samoa. Among other things, the NAIC establishes standards and best practices for the insurance industry, including developing and maintaining model laws, and coordinates regulatory oversight among the states.

See https://www.naic.org/documents/about_faq.pdf

³ https://content.naic.org/sites/default/files/call_materials/11-10%20Life%20Insurance%20%20%2028A%29%20Committee%20call%20materials.pdf

and (also subject to the rates of interest below) prior withdrawals, premium taxes paid by the insurer, and an annual contract charge of \$50.

The interest rate used to determine minimum nonforfeiture amounts as described above is the lesser of 3% per year and the following, as specified in the contract if the interest rate is to be reset:

- 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 1/20 of 1%, specified in the contract no longer than 15 months before the contract issue date or redetermination date described below,
- Reduced by 125 basis points (or more for equity indexed benefits, as described in the code),
- As long as the resulting interest rate is not less than 1%.

The interest rate applies for an initial period and can be redetermined for additional periods. The redetermination date, basis, and period, if any, are as stated in the contract.

The bill would decrease the minimum interest rate (italicized in the third bulleted item above) from 1% to 0.15%.

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FISCAL IMPACT:

Senate Bill 624 would not have a fiscal impact on any units of state or local government.

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