



Senate Fiscal Agency
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Senate Bill 624 (as enacted)
Sponsor: Senator Lana Theis
Senate Committee: Insurance and Banking
House Committee: Insurance

PUBLIC ACT 150 of 2022

Date Completed: 12-14-22

RATIONALE

The National Association of Insurance Commissioners (NAIC) is a standard-setting and regulatory support organization that provides expertise, data, and analysis for insurance commissioners and regulators in the 50 states, the District of Columbia, and the five United States territories. Although the NAIC cannot directly amend a state's laws, many states use the NAIC models when drafting their own laws and regulations.

In December 2020, the NAIC voted to amend the Standard Nonforfeiture Law for Individual Deferred Annuities (Model 805) to lower, from 1.0% to 0.15%, the minimum nonforfeiture interest rate for individual deferred annuities. (The minimum nonforfeiture rate is the lowest interest rate guarantee an insurer may use in an annuity contract to determine the annuity's cash value.)

It was suggested that Michigan statute be amended to reflect the NAIC's recommendation.

CONTENT

The bill amended the standard nonforfeiture law for individual deferred annuities, within the Insurance Code, to modify the interest rate used in determining a minimum nonforfeiture amount.

Under the law, the minimum value of a paid-up annuity, cash surrender, or death benefits available under an annuity contract must be based on a minimum nonforfeiture amount.

Under the bill, the interest rate used in determining minimum nonforfeiture amount must be an annual rate of interest determined as the lesser of 3.0% per annum and the following, which must be specified in the contract if the interest rate will 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 1.0%, specified in the contract no longer than 15 months before the contract issue date or redetermination date.
- Reduced by 125 basis points.
- Where the resulting interest rate is not less than 0.15%.
- The interest rate must apply for an initial period and may be redetermined for additional periods.

(Previously, the resulting interest rate referenced above was 1.0%).

The bill took effect on July 19, 2022.

MCL 500.4072

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

An annuity is a contract issued by a financial institution (e.g., a life insurance company). Generally, an annuity repays the capital invested by a person over a fixed period of time plus interest. The minimum nonforfeiture rate is the lowest interest rate guarantee an insurer may use in an annuity contract to determine the annuity's cash value. For some time now, that interest rate has been lower than 1.0%. The NAIC recognized this is a problem for the industry and recommended lowering the guaranteed minimum rate from 1.0% to 0.15%. Senate Bill 624 aligns Michigan with over a dozen other states that have enacted similar legislation to reflect the NAIC's change to Model 805.

Legislative Analyst: Stephen P. Jackson

FISCAL IMPACT

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

Fiscal Analyst: Jonah Houtz

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.