SCS SB 1188 -- ANNUITY CONTRACTS

SPONSOR: Loudon (Luetkemeyer)

COMMITTEE ACTION: Voted "do pass by consent" by the Committee on Financial Services by a vote of 19 to 0.

This substitute amends the formula that may be used for determining the minimum present value of an annuity when it is terminated early. Current law requires these contracts to offer a minimum interest rate of 1.5%. The substitute removes this minimum and allows a rate that is tied to the five-year Constant Maturity Treasury Rate, as reported by the Federal Reserve. The substitute allows the sellers of annuities to continue to use the current formula until July 1, 2006. The current law expires on July 1, 2004.

The substitute contains an emergency clause.

FISCAL NOTE: No impact on General Revenue Fund in FY 2005, FY 2006, and FY 2007. Estimated Income on Other State Funds of $0 to $17,500 in FY 2005, $0 in FY 2006, and $0 in FY 2007.

PROPONENTS: Supporters say that the bill is based upon a model law revision published last year by the National Association of Insurance Commissioners. Sixteen states have adopted this model language. In 2002, the standard minimum nonforfeiture rate of 3% was reduced to 1.5% to reflect the current low interest rate environment. Without the reduction, many insurers would have been forced to withdraw their annuity products from the market, giving Missouri investors fewer choices. The proposed index would permit the minimum nonforfeiture rate to fluctuate with market conditions, which is a fair solution for investors and insurers.

Testifying for the bill were Representative Luetkemeyer; Life Insurance Association of Missouri; General American Financial; Met Life; and AIG Financial Services.

OPPONENTS: There was no opposition voiced to the committee.

Richard Smreker, Senior Legislative Analyst