

NOTE: As provided in LFC policy, this report is intended only for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used for other purposes.

The most recent FIR version (in HTML & Adobe PDF formats) is available on the Legislative Website. The Adobe PDF version includes all attachments, whereas the HTML version does not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR: Stewart DATE TYPED: 2/18/03 HB 592

SHORT TITLE: Nonforfeiture Interest on Deferred Annuities SB _____

ANALYST: Wilson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			See Narrative		

SOURCES OF INFORMATION

Responses Received From
Public Regulation Commission (PRC)

SUMMARY

Synopsis of Bill

House Bill 592 amends the Standard Nonforfeiture Law--Individual Deferred Annuities by temporarily lowering the interest rate used to determine minimum nonforfeiture values.

The interest rate is being lowered from 3% to 1 ½% for policies issued between July 1, 2003 and July 1, 2005.

Significant Issues

Interest rates are lower today in the United States than they have been in a long time. In particular, driven by the market and monetary policy, short-term interest rates have plunged. Insurers have requested relief from the requirements of the standard nonforfeiture law for deferred annuities.

The National Association of Insurance Commissioners (NAIC) is working on developing an interest rate index to be incorporated into this law. In the meantime, the NAIC supports this interim solution. Without this interim approach annuity products may be withdrawn from the market and not be available to New Mexicans. The ultimate solution of an indexed approach has a substantial affect on insurer solvency.

House Bill 592-- Page 2

HB 592 fixes a short-term problem, but does not fix the longer-term issue of an appropriate index. It is likely that future legislation will be needed when the NAIC completes its work.

FISCAL IMPLICATIONS

Annuity insurers will file new policy forms with the insurance division. The PRC considers the fiscal impact of HB 592 to be minimal.

ADMINISTRATIVE IMPLICATIONS

Annuity insurers will file new policy forms with the insurance division.

DW/ls