The League of Life and Health Insurers of Maryland

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Testimony
for the House Health & Government Operations Committee
In **SUPPORT** of

**House Bill 119 – Insurance – Annuities – Nonforfeiture – Interest Rate**

**January 27, 2022**

The League of Life and Health Insurers of Maryland Inc. supports House Bill 119 and urges the committee to give the bill a favorable report.

Individual deferred annuities are a popular option for consumers saving for retirement. In 2019, there were about 31 million such annuities in force, with about 1.6 million issued that year; it is a competitive market within our industry, and we compete largely with banks' Certificates of Deposit (CD).

Like CD's, these annuities are very conservative, with their funds predominantly in bonds, not stocks The National Association of Insurance Commissioners (NAIC) has long had a model law establishing the minimum nonforfeiture rate an insurer must use in calculating what to pay an annuitant who surrenders (forfeits) his annuity. Before this go-round, the NAIC last revised its model in 2003, setting 1% as the minimum (down from 3%, which reflected the days of double-digit interest rates) to reflect the huge drop in bond rates that began in the late 1990s and intensified poist-9/11.

The NAIC approved this latest change dropping the minimum rate from 1% to .15%, in December, 2020 (report included); the issue first went to the NAIC's Life Actuarial Task Force (LATF), then to its (A) Committee and then to the full NAIC.

LATF is a group of actuaries who studied the 1% minimum requirement in the context of the current economic environment and determined it is not sustainable. It considered new rates ranging from 0% (which had been our preference, with insurers noting negative interest rates in

the European markets) to .5% and came to .15%. It arrived at this after considering its dual objectives of consumer protection and a robust market; its concern (and ours) is prospective, with considerable uncertainty of where bonds are going. Insurers and the NAIC noted that bond rates have dropped considerably in the last few years – hence the attention to this.
The NAIC rate is the floor; insurers ***can and do*** offer higher percentages. LATF and the NAIC will have it under ongoing review, too.

But an unduly high minimum will limit product options and enhancements and possibly raise costs of these annuities – if you have to guarantee a nonforfeiture rate that exceeds the bond rates of the moment, you have to raise your own costs and limit options and benefits.

These amendments cannot be applied to contracts retrospectively and that was not the NAIC's intent in drafting and adopting them. It would ***not*** amend existing contracts. New products containing these new rates would still have to be approved by the Maryland Insurance Administration. Already in-force contracts will maintain their 1% minimum interest rate guarantee in calculating the nonforfeiture value.

Also, to be clear this interest rate change only applies to the return of principal when you turn in your annuity early. It does not impact the benefits that an annuity owner who has not forfeited their annuity would receive.

Passage of this legislation will mean that Maryland will join the vast majority of states that will enact the NAIC model in 2021. We urge a favorable report on House Bill 119.

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