

TESTIMONY OF CHARLES STORROW

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Proposed Amendment to H.515

Concerning Minimum Nonforfeiture Interest Rate Applicable to Individual Deferred Annuities

House Committee on Commerce and Economic Development

January 27, 2022

- 8 V.S.A. § 3750 sets the minimum amount that must be paid to the holder of an individual deferred annuity contract if the contract holder surrenders the annuity before it has matured.
- Section 3750 requires that the amount paid to the holder of an annuity contract that is surrendered include an interest component. The statute sets forth a formula for determining the applicable rate of interest, subject to a “floor” that the rate of interest be no less than 1.0%.
 - It is important to note that this interest rate floor does not relate to the rate of interest that is credited to an annuity over its lifetime, but instead relates to the interest rate component applicable to the pay out of the net balance of an annuity that has been surrendered before it matures.
- Section 3750 is based on a NAIC model law. In 2020 the NAIC amended its model law to reduce the interest rate floor from 1.0% to 0.15% to reflect the low interest rates on US Treasury bonds. Companies that offer annuities typically invest the money paid to them by holders of annuities in US Treasury bonds.
- During the 2020 session the House Committee on Commerce and Economic Development amended DFR’s “housekeeping” bill, S.88 with a provision (bill section 33) that amended Section 3750 to reduce the aforesaid interest rate floor to 0.15%.
- S.88 was further amended by the full House to call for DFR to study and report on the interest rate floor issue.
- After considering the House’s proposal of amendment the Senate took about bill section 33 since the issue addressed in that section was also going to be the subject of a study and report by DFR. The House then concurred with the Senate’s change.

- On January 15, 2022 DFR issued a report that recommends that the interest rate floor be reduced from 1.0% to 0.15%.
- It is respectfully requested that the Committee recommend that H.515 be amended to add a section similar to bill section 33 of the House passed version of S.88, to wit:

Sec. XX. 8 V.S.A. § 3750(d)(1)(C)(iii) is amended to read:

(iii) Where the resulting interest rate is not less than ~~one~~ 0.15 percent.