HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 639 Interest Payable on Death Claim Payments
SPONSOR(S): Fields
TIED BILLS: None **IDEN./SIM. BILLS:** SB 2172

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Insurance Regulation (Sub)	10 Y, 0 N	Cheek	Cooper
2) Insurance			
3)			
4)			
5)			

SUMMARY ANALYSIS

Section 627.4615, F.S., provides that when a policy allows payment of its proceeds in a lump sum upon the death of the insured, the payment must include interest. The interest must be at an annual rate equal to or greater than the Moody's Corporate Bond Yield Average-Monthly Average Corporate as of the day the claim was received, from the date the insurer receives written proof of death of the insured. If the method of calculating such index is substantially changed from the method of calculation in use on January 1, 1993, the rate must not be less than 8 percent.

The bill amends s. 627.4615, F.S., relating to interest payable on death claim payments, to change the interest rate insurers will pay holders of life insurance policies on funds held between the time a death claim is received until benefits are paid. Specifically, the bill replaces the specified Moody interest rate with the greater of either the current short-term rate under 1274 (d) of the Internal Revenue Code of 1986, the rate for funds left on deposit, or the settlement option rate applicable to the policy. The current statutory standard for interest rate payments (Moody's Corporate Bond Yield Monthly Average) is a standard recommended by the National Association of Insurance Commissioners (NAIC). However, according to the Office of Insurance Regulation, this average is no longer widely published, and NAIC has acknowledged the difficulty of its use, while not yet formally making an alternative recommendation.

In addition, the bill deletes obsolete language requiring a minimum 8 percent payout if the method of calculating the Moody's Index was substantially changed from the process of calculation in use on January 1, 1993.

The bill has no fiscal impact on state or local government.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

1. Reduce government?	Yes[]	No[]	N/A[x]
2. Lower taxes?	Yes[]	No[]	N/A[x]
3. Expand individual freedom?	Yes[]	No[]	N/A[x]
4. Increase personal responsibility?	Yes[]	No[]	N/A[x]
5. Empower families?	Yes[]	No[]	N/A[x]

For any principle that received a "no" above, please explain:

B. EFFECT OF PROPOSED CHANGES:

Background

Section 627.4615, F.S., provides that when a policy allows payment of its proceeds in a lump sum upon the death of the insured, the payment must include interest. The interest must be at an annual rate equal to or greater than the Moody's Corporate Bond Yield Average-Monthly Average Corporate as of the day the claim was received, from the date the insurer receives written proof of death of the insured. If the method of calculating such index is substantially changed from the method of calculation in use on January 1, 1993, the rate must not be less than 8 percent.

Major Changes to Current Law

The bill amends s. 627.4615, F.S., relating to interest payable on death claim payments, to change the interest rate insurers will pay holders of life insurance policies on funds held between the time a death claim is received until benefits are paid. Specifically, the bill replaces the specified Moody interest rate with the greater of either the current short-term rate under 1274 (d) of the internal Revenue Code of 1986, the rate for funds left on deposit, or the settlement option rate applicable to the policy. The current statutory standard for interest rate payments (Moody's Corporate Bond Yield Monthly Average) is a standard recommended by the National Association of Insurance Commissioners (NAIC). However, according to the Office of Insurance Regulation (OIR), this average is no longer widely published, and NAIC has acknowledged the difficulty of its use, while not yet formally making an alternative recommendation.

In addition, the bill deletes obsolete language requiring a minimum 8-percent payout if the method of calculating the Moody's Index was substantially changed from the process of calculation in use on January 1, 1993.

C. SECTION DIRECTORY:

<u>Section 1</u>: Amends s. 627.4615, F.S., relating to *Interest payable on death claim payments*.

<u>Section 2</u>: Provides an effective date of upon becoming law.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

   None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None.

2. Expenditures:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

According to OIR, beneficiaries would be paid less interest on lump sums paid to them by insurers, and carriers would have some decreases in cost of payment of these claims.

D. FISCAL COMMENTS:

According to OIR, instituting this change today could result in calculated interest being reduced from approximately 6 percent to 2 percent, which relates more closely top short-term market rates.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

   The bill does not require cities or counties to expend funds.

2. Other:

   None.

B. RULE-MAKING AUTHORITY:

Not Applicable.

C. DRAFTING ISSUES OR OTHER COMMENTS:

The bill addresses only three of Florida Insurance Code statute references regarding use of the Moody's rate. The rate is also specified for use in s. 625.121, F.S. (liquid reserve requirements), and s. 627.4585, F.S. (policy loan provisions).

According to OIR, the NAIC is considering other options to replace the Moody's standard, and it may be more appropriate to wait until the NAIC action prior to changing Florida law.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

On March 23, 2004, the Subcommittee on Insurance Regulation adopted a strike-all amendment by Rep. Fields that removes everything from the bill and revises the definition of “covered claim” for the Worker’s Compensation Guaranty Fund and the Florida Insurance Guaranty Association (FIGA) to exclude claims that have been rejected in another state because the insured’s net worth is greater than that allowed under the law of the other state.