NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1663
SHORT TITLE: Standards for Funding Agreements
SPONSOR(S): Proposed Committee Substitute
FISCAL IMPACT: **Expenditures:** **Increase ( )** **Decrease ( )**
Revenues: **Increase ( )** **Decrease (**X**)**
No Impact ( )
No Estimate Available ( )

FUND AFFECTED: General Fund (X**) Highway Fund ( ) Local Govt. ( )**
Other Funds (X**)** Department of Insurance

BILL SUMMARY:

Adds a new section, G.S. 58-7-16, to provide that any insurer licensed to write life insurance or annuities in North Carolina may also deliver or issue for delivery funding agreements. A "funding agreement" is defined as an agreement that authorizes the acceptance and accumulation of funds for the purpose of making payments in the future of amounts not based on mortality or morbidity contingencies. Specifies entities to which funding agreements may be issued, and requires agreements to make reasonable assumptions about investment income and expenses, and requires them to be fair to all holders of agreements of a given class. Grants Commissioner of Insurance authority to regulate funding agreements. Makes conforming amendments as title indicates to G.S. 58-30-220 and G.S. 78A-2(11). Amendments G.S. 58-30-220(3), by removing the cap on the amount paid out under liability policies and adds to the priority of funds distributed claims under funding agreements, life insurance, and annuity policies.

Rewrites G.S. 105-228.5 to provide that the tax on gross premiums does not apply to income from annuities and funding agreements. Makes numerous technical and clarifying changes to same section.

EFFECTIVE DATE:

The act is effective upon ratification but all premiums or considerations from annuities are excluded from the gross premium tax on or after January 1, 1995. All funds or considerations in connection with funding agreements are excluded for the tax as of January 1, 1995.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:
Department of Insurance

FISCAL IMPACT

	FY 95-96	FY 96-97	FY 97-98	FY 98-99	FY 99-00
REVENUES:					
GENERAL FUND	$(1,000,000) and each fiscal year thereafter				
Dept. Ins.	$ (72,500)				

ASSUMPTIONS AND METHODOLOGY

The annuity tax rate of 1.9%, established in G.S. 105-228.5, is applied to the annual annuity premium to derive the annual General Fund gross receipts tax. The estimated annuity premium for FY 95-96 is $105,263,157. The General Fund revenues are estimated to be $2.0 million for the same period. However, the effective date of this proposal is January 1, 1995 which allows for a 6 month collection period.

The percentage rate used in calculating the insurance regulatory charge under G.S. 58-6-25 is 7.25% for the 1994 calendar year. This rate is applied to the amount of gross receipts taxed to derive the $72,500 (loss) the Department will experience from exempting annuities from premium taxation.

SOURCES OF DATA:
Department of Insurance

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