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LIFE INSURANCE RESERVES

House Bill 5401 with committee amendments
First Analysis (11-29-95)

Sponsor: Rep. John Llewellyn
Committee: Insurance

THE APPARENT PROBLEM:

Legislation was enacted last year dealing with the regulation of insurance company finances. Model legislation developed by the National Association of Insurance Commissioners was incorporated into Michigan's Insurance Code to help the state meet NAIC accreditation standards. Accreditation is recognition that a state is equipped to effectively regulate the insurance industry; that is, that it has the appropriate legislation in place and the necessary systems and personnel. NAIC accreditation of state regulators is important to Michigan-based companies doing business in other states, it is said, because companies from non-accredited states will face additional regulatory hurdles when operating in accredited states. Part of the new legislation addressed how life insurance companies are to determine their reserves. The legislation retained a provision that allows companies to use what they call the unitary method for calculating reserves, but only for policies and contracts issued before January 1, 1996. This method reportedly allows for a lower level of reserves than would otherwise be the case for certain kinds of policies. Representatives of Michigan life insurers say their competitors in other states are allowed to use this method and that Michigan-based companies would be at a disadvantage if they could no longer use it. However, the provision is not contained in the NAIC model standard valuation law, the adoption of which is considered necessary for a state to be accredited. (Other states apparently permit the practice administratively.) Legislation has been proposed that would remove the provision permitting use of the unitary method, with the understanding that the method would not, as a result, be considered prohibited, unless the insurance commissioner acted to prohibit it.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to delete a provision that allows life insurance companies to use the so-called unitary method for calculating reserves. However, the bill also contains language stating that an insurer would not be prohibited from using such a method "so long as not specifically prohibited by the [insurance] commissioner."

The actual language deleted states: "However, for any policy or contract issued before January 1, 1996, for which gross premiums vary by duration, including renewable term plans where renewal premiums beyond the current term period are guaranteed in the policy, the valuation net premiums shall be calculated as a uniform percentage of all the respective gross premiums or premiums guaranteed in the policy or contract."

Section 2 of the bill, which contains the "intent" language, says: "This amendatory act does not prohibit an insurer from calculating valuation net premiums as a uniform percentage of all the respective gross premiums or premiums guaranteed in the policy or contract for any policy or contract for which gross premiums vary by duration, including renewable term plans where renewal premiums beyond the current term period are guaranteed in the policy, so long as not specifically prohibited from doing so by the commissioner."

MCL 500.834

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill would allow life insurance companies to continue using a method of calculating reserves for certain kinds of policies that is currently in use even though the specific authority in the Insurance Code for companies to use such a method would be removed, in order to make the state's law conform to the model act of the National Association of Insurance Commissioners. The bill would grant the state's insurance commissioner the authority to prohibit the use of the so-called unitary method of calculating reserves. Representatives of Michigan-based life insurance companies say the method is used by competitors in most other states. The bill will grant state insurance regulators time to research the issue.

POSITIONS:

The Life Insurance Association of Michigan supports the bill. (11-28-95)

A representative of the Insurance Bureau has indicated support for the bill's approach to this issue. (11-28-95)