House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

EQUITY INDEXED ANNUITIES

Senate Bill 1433 as passed by the Senate
First Analysis (12-5-00)

Sponsor: Sen. Bill Bullard, Jr.
House Committee: Insurance and Financial Services
Senate Committee: Financial Services

THE APPARENT PROBLEM:

Insurance companies typically are required to support their products by setting aside reserves, and the Insurance Code contains provisions that determine how such reserves must be calculated. Currently, according to state insurance regulators, the reserves required for equity indexed deferred annuities are determined using the commissioner's reserve valuation method (CARVM). These annuities are a relatively new product that ties the value of an annuity to a stock market index. However, a new methodology for determining reserves for this type of annuity has been developed by the National Association of Insurance Commissioners (NAIC) and designated as actuarial guideline 35. The application of this guideline would require insurance companies to increase their reserves, say regulators. Reportedly, insurance companies do not want this new guideline adopted by the state without an act of the legislature. Legislative adoption would allow for a public discussion of reserve valuation methods in which insurers could participate.

THE CONTENT OF THE BILL:

The bill would amend Chapter 8 of the Insurance Code to retain the current reserve valuation methods for annuity and pure endowment contracts unless the Michigan Legislature acted to adopt actuarial guideline 35. (That guideline is said to apply to equity indexed deferred annuities.)

MCL 500.834

FISCAL IMPLICATIONS:

The bill would have no fiscal impact on state or local government, according to the House Fiscal Agency. (HFA fiscal note dated 12-5-00))

ARGUMENTS:

For:

The bill will assure insurance companies that state regulators will not adopt a new method of valuating reserves developed by the NAIC for equity indexed deferred annuities without approval of the legislature. Such a requirement will ensure that there will be public discussions of any new reserve valuation methodology in which insurance companies can participate. Adoption of the new standard would increase reserve requirements and affect insurance company finances. The bill would leave current valuation methods in place.

Against:

The bill will make it more it more difficult for regulators to adopt new actuarial guidelines for equity indexed deferred annuities if they deem them necessary in the future. If the Division of Insurance considers insurance companies to be under-reserving for this product, they will have to go to the legislature to seek new standards. This could particularly be a problem if regulators want to act quickly and the legislature is not in session.

POSITIONS:

The Office of Financial and Insurance Services does not oppose the bill. (11-27-00)

A representative of Jackson National Life has indicated support for the bill. (12-5-00)

Analyst: C. Couch

#This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.