Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1433 (as enrolled) **PUBLIC ACT 378 of 2000**
Sponsor: Senator Bill Bullard, Jr.
Senate Committee: Financial Services
House Committee: Insurance and Financial Services

Date Completed: 1-23-01

RATIONALE

Insurance companies that sell annuities use specific standards to value reserves for those annuities in their annual financial reports. Equity indexed deferred annuity products contain features that are not found in standard annuity products. These design features include a participation rate guarantee for one or more years, a cap on the portion of the index growth that is credited to policyholders, and a policy term that defines a time period for which current guarantees are applicable. These products provide policyholders with a minimum guaranteed annuitization rate and an opportunity to receive larger periodic payments based on the growth, if any, in an equity based index. While contract parameters such as participation rates and caps are guaranteed for a period of time, growth of the underlying index is not. Index growth may be positive or negative. The combination of guaranteed parameters and unknown equity index growth makes the application of standard valuation methods for these products a problem for those insurers that issue equity indexed annuity products, since actual growth or decline of the indexes can be unpredictable.

The National Association of Insurance Commissioners (NAIC) has developed a guideline (Actuarial Guideline 35) that defines new methodologies that insurers may use for reserve valuation of equity indexed deferred annuity products to establish reserves for statutory reporting purposes that are consistent with standard minimum statutory formula reserves requirements. (The NAIC develops model laws and guidelines to provide some degree of uniformity among states for insurance regulation. The states may choose to adopt the model laws or guidelines or modify them to meet their specific needs or conditions. Some laws or guidelines have been determined to be essential for effective solvency regulation. These laws or guidelines are required of those states seeking formal NAIC accreditation.) Michigan has not adopted Actuarial Guideline 35 as the standard for reserve valuation of equity indexed deferred annuity products. Because Actuarial Guideline 35 apparently could have negative financial implications for insurers who market these products, some people believe that it should not be adopted without legislative action.

CONTENT

The bill amended Chapter 8 (Assets and Liabilities) of the Insurance Code to retain a requirement concerning the reserve valuation method for annuity and pure endowment contracts, without action by the Michigan Legislature to adopt Actuarial Guideline 35. Under the Code, according to the Commissioner's annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in those contracts, reserves must be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by those contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable before the end of that respective contract year.

MCL 500.834

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Michigan domiciled insurers who currently value their reserves for equity indexed deferred annuities according to the present Commissioners Annuity Reserve Valuation Method would like assurance that the standard reserve valuation method will not change without industry input and public discussion. If Michigan insurers were forced to adopt Actuarial Guideline 35 standards, the new method of valuation would increase the reserve requirements and negatively affect the surplus for those insurers, potentially influencing their financial stature. The bill ensures that the Actuarial Guideline 35 standards will not be adopted by the State without legislative action.

Opposing Argument

The bill makes it difficult for Michigan's Division of Insurance to adopt new standards if the division determines that companies using the current valuation method have inadequate reserves due to the value and amount of equity indexed annuities they market. Also, the bill may present a potential financial problem if the Legislature is not in session and Actuarial Guideline 35 is needed for formal NAIC accreditation. Changes in standards should be made by the Division of Insurance through administrative procedures.

Legislative Analyst: N. Nagata

FISCAL IMPACT

The bill will have fiscal impact on local or State government.

Fiscal Analyst: M. Tyszkiewicz

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