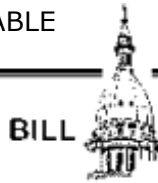




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BILL ANALYSIS

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House Bill 5931 (Substitute H-1 as passed by the House)
Sponsor: Representative David Robertson
House Committee: Insurance
Senate Committee: Banking and Financial Institutions

Date Completed: 6-17-04

CONTENT

The bill would amend the Insurance Code to provide for the use of the 2001 Commissioners Standard Ordinary (CSO) mortality table for use in determining life insurance companies' minimum reserve liabilities as well as premiums and nonforfeiture benefits. The bill also specifies that, in addition to the Code's other requirements, a life insurer would have to use Appendix A-830 of the National Association of Insurance Commissioners (NAIC) accounting practices and procedures manual for the valuation of life insurance policies.

2001 CSO Mortality Table

The bill would define "2001 CSO mortality table" as that mortality table, consisting of separate rates for male and female lives, developed by the American Academy of Actuaries CSO task force from the valuation basic mortality table developed by the mortality task force and adopted by the NAIC in December 2002.

Under the bill, for policies issued on or after January 1, 2004, and before January 1, 2009, the 2001 CSO mortality table could be used as the minimum standard, at the election of an insurer for each plan of insurance. If an insurer elected to use this table, it would have to do so for both valuation and nonforfeiture purposes. In determining minimum standards for policies issued after January 1, 2009, insurers would have to use the 2001 CSO mortality table.

For plans of insurance without separate rates for smokers and nonsmokers, insurers would have to use the composite mortality tables (i.e., tables with mortality rates that do not distinguish between smokers and nonsmokers). For each plan of insurance with separate rates for smokers and nonsmokers, an insurer could use any of the following:

- Composite mortality tables to determine minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up nonforfeiture benefits.
- Smoker and nonsmoker mortality tables to determine the valuation net premiums and additional minimum reserves, if any, required under the Code, and composite mortality tables to determine the basic minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up nonforfeiture benefits.
- Smoker and nonsmoker mortality tables to determine minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up nonforfeiture benefits.

At its option for each plan of insurance, an insurer could use the 2001 CSO mortality table in its ultimate or select and ultimate form for the purpose of determining minimum reserve liabilities, minimum cash surrender values, and amounts of paid-up nonforfeiture benefits for each plan of insurance. If the 2001 CSO mortality table were an insurer's minimum reserve standard for any plan, the actuarial opinion in the annual statement filed with the Commissioner of the Office of Financial and Insurance Services (OFIS) would have to be completed pursuant to Section 830a of the Code. The Commissioner, however, could exempt from that requirement an insurer that did business solely in Michigan. (Section 830a requires every life insurance company doing business in Michigan annually to submit to the OFIS Commissioner a qualified actuary's opinion regarding reserves and related actuarial items.)

For any ordinary life insurance policy delivered or issued for delivery in Michigan on or after January 1, 2004, that used the same premium rates and charges for male and female lives or was issued in circumstances under which applicable law did not permit distinctions on the basis of gender, a mortality table that was a blend of the 2001 CSO mortality table (M) (for males) and the 2001 CSO mortality table (F) (for females) could, at the option of the insurer for each plan of insurance, be substituted for the 2001 CSO mortality table for use in determining minimum cash surrender value and amounts of paid-up nonforfeiture benefits. The bill specifies that no change in minimum valuation standards would be implied by these provisions.

In determining minimum reserve liabilities and nonforfeiture benefits, an insurer could choose from among the blended tables developed by the American Academy of Actuaries CSO task force and adopted by the NAIC in December 2002.

The bill states that it would not, by itself, be a violation of Chapter 20 (Unfair and Prohibited Trade Practices and Frauds) of the Insurance Code for an insurer to issue the same kind of policy of life insurance on both a sex-distinct and sex-neutral basis.

Appendix A-830

The bill specifies conditions that would apply in valuing life insurance policies pursuant to Appendix A-830 of the NAIC accounting practices and procedures manual. Any supplements, replacements, or changes to Appendix A-830 that were adopted by the NAIC could take effect only if adopted by the OFIS Commissioner by rule promulgated pursuant to the Administrative Procedures Act. The bill states that it would not expand the applicability of Appendix A-830 to include life insurance policies otherwise exempt under the appendix.

MCL 500.834 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Maria Tyszkiewicz

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.