

LIFE & HEALTH GUARANTY ASSOCIATION

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House Bill 6313 (Substitute H-1)

Sponsor: Rep. Joe Hune

Committee: Insurance

Complete to 12-5-06

A PRELIMINARY SUMMARY OF HOUSE BILL 6313 AS REPORTED FROM COMMITTEE

The bill would amend Chapter 77 of the Insurance Code, which deals with the Michigan Life and Health Guaranty Association. As the association notes, the MLHIGA:

was created in statute to protect Michigan residents who are policyholders of life or health policies issued by an insolvent insurance company, up to specified limits. All insurance companies (with limited exceptions) licensed to write life and health insurance or annuities in Michigan are required, as a condition of doing business in the state, to be members of the guaranty association. If a member company becomes insolvent, protection is provided through assessments of the guaranty association's other member insurance companies writing the same line or lines of insurance as the insolvent company. All 50 states, the District of Columbia, and Puerto Rico have life and health insurance guaranty associations.

The bill makes numerous amendments to the act described by association representatives as making Michigan's statute conform more closely to the 1999 model act for such guaranty associations produced by the National Association of Insurance Commissioners. (NAIC) The MLHIGA has described these amendments as doing the following:

- Changing the situs of coverage of unallocated annuity contracts from the state of the contract owner to the state of the plan sponsor. (Section 7704) [An unallocated annuity contract is a annuity contract or group annuity certificate which is not issued to and owned by an individual, except to the extent of any annuity benefits guaranteed to the individual by an insurer under such contract or certificate]
- Changing the situs of coverage of structured settlement annuities from the state of residence of the contract owner to the state of residence of the payee. (Section 7704) [Structured settlement annuities are annuities purchased to fund periodic payments for a plaintiff or other claimant related to personal injuries suffered.]
- Clarifying the coverage to be provided to equity-indexed products. (Section 7704) [These products fluctuate in value based on an underlying index, for example a stock market index such as the S & P 500.]

- Increasing health insurance benefit limits for disability income and long-term care policies to \$300,000 and basic hospital, medical, and surgical policies to \$500,000. (Section 7704)
- Allowing the association to continue an insolvent insurance company's reinsurance contracts. (Section 7708)
- Providing technical amendments to the assessment process. (Section 7709)

Mortality Tables

The bill also would add a new Section 838A to the Insurance Code to allow insurance companies to use the 2001 CSO preferred class structure mortality table in place of the 2001 CSO smoker and nonsmoker mortality table. The preferred class structure mortality table is defined as tables with separate rates of mortality for super preferred smokers, preferred nonsmokers, residual standard smokers, preferred smokers, and residual standard smoker splits of the nonsmoker and smoker tables found in the 2001 CSO smoker and nonsmoker mortality table. The new tables were adopted at the September 2006 national meeting of the National Association of Insurance Commissioners. [These amendments have been described by the industry as an "interim solution" that will reduce the amount insurance companies need to maintain in reserves while new reserve methodologies are developed.]

FISCAL IMPACT:

There would be no fiscal impact on the state or local units of government.

POSITIONS:

The Office of Financial and Insurance Services (OFIS) indicated support for the bill. (11-30-06)

The Michigan Life and Health Insurance Guaranty Association testified in support of the bill. (11-30-06)

The American Council of Life Insurers (ACLI) testified in support of the bill. (11-30-06)

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

■ 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.