

## ELIMINATE VALUATION MANUAL EXEMPTION

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**House Bill 5241 as reported from committee**

**Sponsor: Rep. Daire Rendon**

**Committee: Insurance**

**Complete to 12-4-19**

Analysis available at  
<http://www.legislature.mi.gov>

*(Enacted as Public Act 15 of 2020)*

### SUMMARY:

House Bill 5241 would amend Chapter 8 (Assets and Liabilities) of the Insurance Code to remove a provision that currently exempts certain insurers from the requirement to establish reserves using a principle-based valuation that meets certain conditions for policies or contracts as specified in the manual of valuation instructions (*Valuation Manual*) adopted by the National Association of Insurance Commissioners (NAIC).

In 2009, the NAIC adopted revisions to its standard valuation model law, authorizing the use of the *Valuation Manual*, which contains the minimum reserve standards for various life and health insurance and annuity contracts.<sup>1</sup> The *Valuation Manual* was to become operative when 42 states representing at least 75% of direct written premiums adopted the 2009 revisions. Michigan adopted the revisions in 2014.<sup>2</sup> The *Valuation Manual* became operative on January 1, 2017.<sup>3</sup> The adoption of the 2009 revisions is an NAIC accreditation requirement effective January 1, 2020.<sup>4</sup>

Under current law, a Michigan-based company is exempt from the principle-based valuation and *Valuation Manual* requirements if it meets both of the following:

- The company has less than \$500.0 million of ordinary life premiums and, if the company is a member of a group of life insurers, the group has combined ordinary life premiums of less than \$1.0 billion.
- The company reported total adjusted capital of at least 450% of the authorized control level risk-based capital in the most recent risk-based capital report and the appointed actuary has provided an unqualified opinion on the reserves.

However, a company exempt as above may elect in writing to be bound for a calendar year by the requirements.

The bill would eliminate this exemption and election.

MCL 500.836b

<sup>1</sup> See [https://www.naic.org/documents/cmte\\_f\\_pbr\\_referral\\_2009\\_revisions\\_standard\\_valuation\\_law\\_820.pdf](https://www.naic.org/documents/cmte_f_pbr_referral_2009_revisions_standard_valuation_law_820.pdf)

<sup>2</sup> See <http://legislature.mi.gov/doc.aspx?2014-HB-5932>

<sup>3</sup> See [https://www.michigan.gov/documents/difs/Bulletin\\_2016-17-INS\\_529165\\_7.pdf](https://www.michigan.gov/documents/difs/Bulletin_2016-17-INS_529165_7.pdf)

<sup>4</sup> See [https://www.naic.org/documents/cmte\\_legislative\\_liaison\\_brief\\_accreditation.pdf](https://www.naic.org/documents/cmte_legislative_liaison_brief_accreditation.pdf)

See also <https://content.naic.org/sites/default/files/inline-files/FRSA%20Pamphlet%208-2019.pdf>

**FISCAL IMPACT:**

House Bill 5241 would not have an appreciable fiscal impact on any unit of state or local government.

**POSITIONS:**

Representatives of the Department of Insurance and Financial Services testified in support of the bill. (12-3-19)

The following entities indicated support for the bill:

- Life Insurance Association of Michigan (12-3-19)
- John Hancock (12-4-19)
- American Council of Life Insurers (12-4-19)
- Insurance Alliance of Michigan (12-4-19)

Legislative Analyst: Rick Yuille  
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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.