THE INSURANCE CODE OF 1956 (EXCERPT)
Act 218 of 1956

CHAPTER 7

RESERVE STANDARDS FOR DISABILITY INSURANCE

500.701 Definitions.

Sec. 701. As used in this chapter:

(a) "Annual claim cost" means the net annual cost per unit of benefit before the addition of expenses, including claim settlement expenses, and a margin for profit or contingencies.

(b) "Accrued claims" means that portion of claims payable under a health insurance policy or certificate and incurred on or prior to the valuation date that result in liability of the insurer for the payment of benefits for medical services rendered on or prior to the valuation date and for the payment of benefits for days of hospitalization and days of disability that have occurred on or prior to the valuation date that the insurer has not paid as of the valuation date but for which it is liable and will have to pay after the valuation date.

(c) "Date of disablement" means the earliest date the insured is considered as being disabled under the definition of disability in the health insurance policy or certificate based on a doctor's evaluation or other evidence.

(d) "Date of incurral" means the date a claim is determined to be a liability of the insurer.

(e) "Elimination period" means a specified number of days, weeks, or months starting at the beginning of each period of loss, during which benefits under a health insurance policy or certificate are not payable.

(f) "Gross premium" means the amount of premium charged by the insurer. Gross premium includes the net premium, based on claim-cost, for the risk together with any loading for expenses, profit, or contingencies.

(g) "Group insurance" means blanket insurance and franchise insurance and any other forms of group insurance.

(h) "Level premium" means a premium on a health insurance policy or certificate calculated to remain unchanged throughout either the lifetime of the policy or certificate or for some shorter projected period of years.

(i) "Long-term care insurance" means any insurance policy, certificate, or rider advertised, marketed, offered, or designed to provide coverage for not less than 12 consecutive months for each covered person on an expense incurred, indemnity, prepaid, or other basis, for 1 or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance, or personal care services, provided in a setting other than an acute care unit of a hospital. Long-term care insurance includes a policy, certificate, or rider that provides for payment of benefits based upon cognitive impairment or the loss of functional capacity. Long-term care insurance does not include an insurance policy or certificate offered primarily to provide basic medicare supplement coverage, basic hospital expense coverage, basic medical-surgical expense coverage, hospital confinement indemnity coverage, major medical expense coverage, disability income or related asset-protection coverage, accident only coverage, specified disease or specified accident coverage, or limited benefit health coverage.

(j) "Modal premium" means the premium paid on a health insurance policy or certificate based on a premium term that could be annual, semiannual, quarterly, monthly, or weekly.

(k) "Preliminary term reserve method" means the method under which the valuation net premium for each year falling within the preliminary term period is exactly sufficient to cover the expected incurred claims of that year, so that the terminal reserves will be zero at the end of the year. As of the end of the preliminary term period, a new constant valuation net premium or stream of changing valuation premiums becomes applicable such that the present value of all such premiums is equal to the present value of all claims expected to be incurred following the end of the preliminary term period.

(*l*) "Reserve" means all items of benefit liability, whether in the nature of incurred claim liability or in the nature of contract liability relating to future periods of coverage, and whether the liability is accrued or unaccrued. An insurer under its contracts promises benefits that result in either of the following:

(*i*) Claims that have been incurred, that is, for which the insurer has become obligated to make payment, on or prior to the valuation date. On these claims, payments expected to be made after the valuation date for accrued and unaccrued benefits are liabilities of the insurer which should be provided for by establishing claim reserves.

(*ii*) Claims that are expected to be incurred after the valuation date. Any present liability of the insurer for these future claims should be provided for by the establishment of contract reserves and unearned premium reserves.

(m) "Unearned premium reserve" means that portion of the premium on a health insurance policy or certificate paid or due to the insurer that is applicable to the period of coverage extending beyond the valuation date.

(n) "Valuation net modal premium" means the modal fraction of the valuation net annual premium that corresponds to the gross modal premium in effect on any contract to which contract reserves apply. For example, if the mode of payment in effect is quarterly, the valuation net modal premium is the quarterly equivalent of the valuation net annual premium.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.702 Health insurance reserves; determination of adequacy; basis.

Sec. 702. The adequacy of an insurer's health insurance reserves shall be determined only on the combined basis of claim, premium, and contract reserves and not on any 1 or 2 of these categories alone.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.703 Claim reserves and claim expense reserves required; conditions; testing for adequacy and reasonableness.

Sec. 703. (1) Claim reserves are required for all incurred but unpaid claims on all health insurance policies and certificates.

(2) Appropriate claim expense reserves are required with respect to the estimated expense of settlement of all incurred but unpaid claims on health insurance policies and certificates.

(3) All claim reserves on health insurance policies and certificates for prior valuation years are to be tested for adequacy and reasonableness consistent with claim runoff schedules in accordance with the insurer's annual statutory financial statement including consideration of any residual unpaid liability.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.705 Disability income claim reserves; maximum interest rate; morbidity standards specified in rules; exception; group disability income claim reserves; duration from date of disablement 2 years or more but less than 5 years; basis; request for modification plan approval; elimination period; measurement of disablement duration.

Sec. 705. (1) The maximum interest rate for claim reserves related to disability income is that rate specified in section 733.

(2) Minimum standards with respect to morbidity are those specified in rules promulgated pursuant to this chapter except that, at the option of the insurer, for claims with a duration from date of disablement of less than 2 years, reserves may be based upon the insurer's experience, if such experience is considered credible, or upon other assumptions designed to place a sound value on the liabilities.

(3) For group disability income claims with a duration from date of disablement of 2 years or more but less than 5 years, reserves may, with the approval of the commissioner, be based on the insurer's experience for which the insurer maintains underwriting and claim administration control. The request for approval of a plan of modification to the reserve basis shall include all of the following:

(a) An analysis of the credibility of the experience.

(b) A description of how all of the insurer's experience is proposed to be used in setting reserves.

(c) A description and quantification of the margins to be included.

(d) A summary of the financial impact that the proposed plan of modification would have had on the insurer's last filed annual statement.

(e) A copy of the approval of the proposed plan of modification by the commissioner.

(f) Any other information considered necessary by the commissioner.

(4) For health insurance policies and certificates with an elimination period, the duration of disablement shall be measured as dating from the time that benefits would have begun to accrue if there had not been an elimination period.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.707 Health insurance benefits other than disability income; claim reserves maximum interest rate; basis of claim reserve.

Sec. 707. (1) The maximum interest rate for claim reserves related to health insurance benefits other than

disability income is that rate specified in section 733.

(2) The claim reserve shall be based upon the insurer's experience if such experience is considered credible or upon other assumptions designed to place a sound value on the liabilities.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.709 Estimation of claim liabilities; methods.

Sec. 709. Except as otherwise provided in this chapter, any generally accepted or reasonable actuarial method or combination of methods may be used to estimate all claim liabilities. The methods used for estimating liabilities generally may be aggregate methods or various reserve items may be separately valued. Approximations based on groupings and averages may also be employed, provided, however, that the adequacy of the claim reserves shall be determined in the aggregate.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.711 Unearned premium reserves; treatment of premiums due and unpaid; discount of certain gross premiums paid in advance.

Sec. 711. (1) Unearned premium reserves are required for all health insurance policies and certificates with respect to the period of coverage for which premiums, other than premiums paid in advance, have been paid beyond the date of valuation.

(2) If premiums due and unpaid are carried as an asset, such premiums shall be treated as premiums in force, subject to unearned premium reserve determination. The value of unpaid commissions, premium taxes, and the cost of collection associated with due and unpaid premiums shall be carried as an offsetting liability.

(3) The gross premiums paid in advance for a period of coverage commencing after the next premium due date that follows the date of valuation may be appropriately discounted to the valuation date and shall be held either as a separate liability or as an addition to the unearned premium reserve that would otherwise be required as a minimum.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.713 Minimum unearned premium reserve; basis; sum of unearned premium and contract reserves; limitation.

Sec. 713. (1) The minimum unearned premium reserve with respect to any health insurance policy or certificate is the pro rata unearned modal premium that applies to the premium period beyond the valuation date, with such premium determined on the basis of either of the following:

(a) The valuation net modal premium on the contract reserve basis applying to the health insurance policy or certificate.

(b) The gross modal premium for the health insurance policy or certificate if no contract reserve applies.

(2) The sum of the unearned premium and contract reserves for all health insurance policies and certificates of the insurer subject to contract reserve requirements shall not be less than the gross modal unearned premium reserve on all such health insurance policies and certificates, as of the date of valuation. This reserve shall not be less than the expected claims for the period beyond the valuation date represented by the unearned premium reserve, to the extent not provided for under this chapter.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.715 Premium reserves; computation.

Sec. 715. The insurer may employ suitable approximations and estimates in computing premium reserves including, but not limited to, groupings, averages, and aggregate estimation. The insurer should test periodically the approximations or estimates to determine their continuing adequacy and reliability.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.717 Contract reserves; required for certain policies and certificates; exception; addition to claim and premium reserves; methods and procedures; date of incurral defined.

Sec. 717. (1) Except as otherwise provided for in subsection (2), contract reserves are required for both of the following:

(a) All health insurance policies and certificates that use level premiums.

(b) All health insurance policies and certificates with respect to which, due to the gross premium pricing structure at issue, the value of the future benefits at any time exceeds the value of any appropriate future valuation net premiums at that time. The values specified in this subdivision shall be determined in the manner provided for in section 719.

(2) Health insurance policies and certificates not requiring a contract reserve include the following:

(a) Policies and certificates that cannot be continued after 1 year from issue.

(b) Policies and certificates already in force on the effective date of this chapter for which a contract reserve was not required under standards in effect before the effective date of this chapter.

(3) The contract reserve is in addition to claim reserves and premium reserves.

(4) The methods and procedures for contract reserves shall be consistent with those methods and procedures for claim reserves for any health insurance policy or certificate, or else appropriate adjustment shall be made when necessary to assure provision for the aggregate liability. The definition of the date of incurral shall be the same in both determinations.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.719 Morbidity standards; rules; structure of valuation net premiums; valuation of health insurance policies and certificates for which tabular morbidity standards not specified; maximum interest rate for contract reserves; termination rates; adjustment of morbidity standard on aggregate basis; minimum reserve; application of certain reserve adjustments; offset of negative reserves against positive reserves; total contract reserve not less than zero.

Sec. 719. (1) Minimum standards with respect to morbidity are those set forth in rules promulgated pursuant to this chapter. Valuation net premiums used under each health insurance policy or certificate shall have a structure consistent with the gross premium structure at the date of issuance of the policy or certificate as this relates to advancing age of the insured, contract duration, and period for which gross premiums have been calculated.

(2) Health insurance policies and certificates for which tabular morbidity standards are not specified in rules promulgated pursuant to this chapter shall be valued using tables established for reserve purposes by a qualified actuary and acceptable to the commissioner.

(3) The maximum interest rate for contract reserves is that rate specified in section 733.

(4) Termination rates used in the computation of reserves shall be on the basis of mortality as specified in section 735 except that under policies or certificates for which premium rates are not guaranteed, and where the effects of insurer underwriting are specifically used by policy or certificate duration in the valuation morbidity standard, or for return of premium or other deferred cash benefits, total termination rates may be used at ages and durations where these exceed specified mortality table rates, but not in excess of the lesser of the following:

(a) 80% of the total termination rate used in the calculation of the gross premiums.

(b) 8%.

(5) If a morbidity standard specified in rules promulgated pursuant to this chapter is on an aggregate basis, the morbidity standard may be adjusted to reflect the effect of insurer underwriting by policy or certificate duration. The adjustments shall be appropriate to the underwriting and be acceptable to the commissioner.

(6) For health insurance, except for long-term care insurance and return of premium or other deferred cash benefits, the minimum reserve is the reserve calculated on the 2-year full preliminary term method where the terminal reserve is zero at the first and second year anniversary of the policy or certificate. For long-term care insurance, the minimum reserve is the reserve calculated on the 1-year full preliminary term method. For health insurance, except for return of premium or other deferred cash benefits, the preliminary term method may be applied only in relation to the date of issue of a policy or certificate. For return of premium or other deferred cash benefits issued on or after the effective date of this chapter, the minimum reserve is the reserve, calculated as of the date of issue of the return of premium or other deferred cash benefits, set forth as follows:

(a) On the 1-year preliminary term method if such benefits are provided at any time before the twentieth anniversary.

(b) On the 2-year preliminary term method if such benefits are only provided on or after the twentieth anniversary.

(7) Reserve adjustments made after issuance of the health insurance policy or certificate as a result of rate increases, revisions in assumptions, or for other reasons are to be applied immediately as of the effective date of adoption of the adjusted basis.

(8) Negative reserves on any benefit may be offset against positive reserves for other benefits in the same health insurance policy or certificate, but the total contract reserve with respect to all benefits combined shall not be less than zero.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.721 Application of alternative method or basis to contract reserve; assumptions; methods to determine sound value of liabilities.

Sec. 721. (1) If the contract reserve on all health insurance policies and certificates to which an alternative method or basis is applied is not less in the aggregate than the amount determined according to the applicable standards specified in this chapter, an insurer may use any reasonable assumptions as to interest rates, termination, and mortality rates, and rates of morbidity or other contingency.

(2) Subject to subsection (1), the insurer may employ other methods in determining a sound value of its liabilities under health insurance policies and certificates, including, but not limited to, the following:

(a) The net level premium method.

(b) The 1-year full preliminary term method.

(c) Prospective valuation on the basis of actual gross premiums with reasonable allowance for future expenses.

(d) The use of approximations such as those involving age groupings, groupings of several years of issue, average amounts of indemnity, and grouping of similar contract forms.

(e) The computation of the reserve for 1 contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued.

(f) The use of a composite annual claim cost for all or any combination of the benefits included in the policies or certificates valued.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.723 Tabular reserves; annual review; increments; restriction of future gross premiums; establishment of contract reserves for insufficiency in aggregate.

Sec. 723. (1) A review shall be made annually of the insurer's prospective contract liabilities on health insurance policies and certificates valued by tabular reserves, to determine the continuing adequacy and reasonableness of the tabular reserves giving consideration to future gross premiums. The insurer shall make appropriate increments to the tabular reserves if the tests indicate that the basis of the reserves is no longer adequate, subject to the minimum standards of section 719.

(2) If an insurer has a health insurance policy or certificate for which future gross premiums will be restricted by contract, insurance bureau regulations, or for other reasons, such that the future gross premiums reduced by expenses for administration, commissions, and taxes will be insufficient to cover future claims, the insurer shall establish contract reserves for the insufficiency in the aggregate.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.725 Reinsurance; determination of increases to, or credit against, reserves.

Sec. 725. Increases to, or credits against, reserves carried arising because of reinsurance assumed or reinsurance ceded, shall be determined in a manner consistent with minimum reserve standards described in this chapter and with all applicable provisions of the reinsurance contracts that affect the insurer's liabilities.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.729 Individual insurance policies; minimum morbidity standards for disability income benefits; basis of contract reserve standards for certain hospital, surgical, and maternity benefits; basis of contract reserve standards for certain cancer expense benefits and accidental death benefits.

Sec. 729. (1) The following minimum morbidity standards for disability income benefits for individual health insurance policies shall be used:

(a) For contract reserves for policies issued on or after the effective date of this chapter, the 1985 commissioners individual disability tables A (85 C.I.D.A.) or the 1985 commissioners individual disability tables B (85 C.I.D.B.) and for policies issued on or after January 1, 1965, and before the effective date of this chapter, the insurer may use either of those tables or the 1964 commissioners disability table (64 C.D.T.).

Each insurer shall elect, with respect to all individual policies issued in any 1 annual statement year, whether it will use tables A or tables B as the minimum standard. The insurer may, however, elect to use the other tables with respect to any subsequent annual statement year.

(b) For claim reserves, the minimum morbidity standard in effect for contract reserves as of the date the claim is incurred.

(2) Contract reserve standards for hospital, surgical, and maternity benefits for scheduled or fixed-time period benefits for individual health insurance policies issued on or after January 1, 1955 and before January 1, 1982, shall be based on the 1956 intercompany hospital-surgical tables and for policies issued on or after January 1, 1982, the 1974 medical expense tables, table A,Transactions of the Society Actuaries, volume XXX, page 63.

(3) The contract reserve standards for scheduled or fixed-time period cancer expense benefits shall be based on the 1985 N.A.I.C. cancer claim cost tables for policies issued on or after January 1, 1986.

(4) Contract reserve standards for accidental death benefits shall be based on the 1959 accidental death benefits table for policies issued on or after January 1, 1965.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.731 Disability benefits for group health insurance certificates; minimum morbidity standards.

Sec. 731. The following minimum morbidity standards for disability benefits for group health insurance certificates shall be used:

(a) For contract reserves for policies and certificates issued on or after the effective date of this chapter, the 1987 commissioners group disability income table (87 C.G.D.T.).

(b) For claim reserves for claims incurred prior to, on, or after the effective date of this chapter, the 1987 commissioners group disability income table (87 C.G.D.T.).

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.733 Maximum interest rates.

Sec. 733. (1) The maximum interest rate for contract reserves is the calendar year statutory valuation interest rate for life insurance specified in section 836 as of the date of issuance of the health insurance policy or certificate.

(2) The maximum interest rate for claim reserves on policies requiring contract reserves is the calendar year statutory valuation interest rate for life insurance specified in section 836 as of the date the claim is incurred.

(3) The maximum interest rate for claim reserves on policies not requiring contract reserves is the calendar year statutory valuation interest rate for single premium immediate annuities specified in section 836 as of the date the claim is incurred, reduced by 100 basis points.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.735 Mortality basis; use of other mortality tables; request for approval.

Sec. 735. (1) The mortality basis used shall be that specified in section 834 as of the date of issuance of the health insurance policy or certificate.

(2) Other mortality tables adopted by the national association of insurance commissioners and promulgated by the commissioner may be used in the calculation of the minimum reserves if appropriate for the type of benefits and if approved by the commissioner. The request for approval shall include the proposed mortality table and the reason that the standard specified in subsection (1) is inappropriate.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218

500.737 Rules.

Sec. 737. The commissioner may promulgate rules pursuant to the administrative procedures act of 1969, Act No. 306 of the Public Acts of 1969, being sections 24.201 to 24.328 of the Michigan Compiled Laws, that he or she considers appropriate for the implementation of this chapter.

History: Add. 1994, Act 148, Imd. Eff. June 7, 1994.

Popular name: Act 218