

LIFE INSURANCE ILLUSTRATIONS

House Bill 5535 with committee amendment First Analysis (3-10-98)

Sponsor: David M. Gubow
Committee: Insurance

THE APPARENT PROBLEM:

Life insurance salespersons are required by the Insurance Code to offer customers two interest rate illustrations when marketing universal life insurance policies. (Universal policies contain two separate components, a savings component and a protection component.) They must show customers the current rate being paid on a policy of the kind being sold and the policy's guaranteed rate. This requirement was added to the code with the adoption in 1993 of the model act for regulating universal life insurance developed by the National Association of Insurance Commissioners (NAIC). Life insurance representatives say that the NAIC has subsequently developed a new model that requires three illustrations: the guaranteed rate, the current rate, and a mid-point rate. Reportedly, about a dozen states have already adopted this new model legislation. Companies doing business in many states would prefer to use a uniform set of sales illustrations, say industry officials. They have recommended that the Insurance Code be amended to allow for the use of three sales illustrations in selling universal life policies.

THE CONTENT OF THE BILL:

The Insurance Code (MCL 500.4038) requires life insurance salespersons to furnish to an applicant a statement of policy information at the time of taking an application for a policy. The illustration of policy premium, death benefit, and cash value must be shown for "the current interest rate actually being paid on existing policies in force and for the interest rate guaranteed in the policy. No interest rate other than these may be illustrated." House Bill 5535 would specify that the illustration of policy premium, death benefit, and cash value must be shown for "an interest rate no higher than the current interest rate actually being paid on the policy illustrated or to be issued and for the interest rate guaranteed in the policy." The bill would specify that "interest rates higher than these shall not be illustrated."

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill would amend the Insurance Code in a manner consistent with the most recent NAIC model legislation for universal life insurance. It allows interest rate illustrations to use the guaranteed rate and other rates up to and including the current rate being paid on the kind of policy being marketed. This means at least two interest rates must be illustrated, but more can be. The NAIC model adopted in some other states requires three illustrations of interest rates, according to industry spokespersons, the guaranteed rate, the current rate, and a midpoint rate. This bill is consistent with that (although it does not require three rates). It provides insurers with flexibility while still providing customers with necessary information.

POSITIONS:

The Michigan Life Insurance Association supports the bill. (3-4-98)

The Insurance Bureau has indicated support for the bill. (3-4-98)

The Michigan Association of Life Underwriters had indicated support for the bill. (3-4-98)

Analyst: C. Couch

■ 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.