



**House  
Legislative  
Analysis  
Section**

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**REQUIREMENTS FOR INTEREST  
INDEXED LIFE INSURANCE**

**House Bill 6492 as introduced  
First Analysis (12-3-02)**

**Sponsor: Rep. Joanne Voorhees  
Committee: Insurance and Financial  
Services**

***THE APPARENT PROBLEM:***

Interest indexed insurance policies provide interest credits linked to an external referent, such as the Standard and Poor's 500 stock index. Such external indices offer the prospect of greater increases in value than an insurer could commit to in a fixed-interest policy. But when a consumer buys an interest indexed policy in the hopes of beating the fixed-interest options, he or she also takes a risk: when the external index takes a downturn—for instance, when stocks fall—the value of the policy may fall lower than that of the fixed-interest policy that he or she passed up. In 1993 the legislature enacted Public Act 349 of 1993, which amended the state insurance code to require insurers to keep specific information on file for “interest indexed” universal life insurance policies. Among other things, the insurer must keep on file a description of how interest credits are determined and, if a policy's link to an index will cease before the policy's maturity date, a description of the method the insurer will use to determine interest credits after the link ceases. Requiring insurers to keep such information on file provides some security to consumers who want to know exactly what they are purchasing or want access to further information about products they have already purchased.

Since Public Act 349 was enacted, insurers have begun to offer interest indexed annuity contracts, but the Insurance Code does not require insurers to keep on file information about interest indexed annuity contracts. (According to Barron's *Dictionary of Insurance* Terms the basic distinction between life insurance and annuities is as follows: “While the basic purpose of life insurance is to provide an income for a beneficiary at the death of the insured, the annuity is intended to provide an income for life for the annuitant.”) Legislation has been introduced to require insurers to keep on file the same information for interest indexed annuity contracts that they are currently required to keep for interest indexed universal life insurance policies.

***THE CONTENT OF THE BILL:***

Under the Insurance Code, certain information is required to be maintained on file by an insurer for all interest-indexed universal life insurance policies. The bill would amend the code to also require an insurer to maintain the specified information for all interest indexed annuity contracts. The required information includes:

- a description of how interest credits are determined;
- the insurer's investment policy;
- if a policy is linked to an index for a specified period less than the maturity date of the policy, a description of the method used to determine interest credits upon the expiration of the period;
- a description of any interest guarantee in addition to or in lieu of the index; and,
- a description of any maximum premium limitations.

MCL 500.2236a

***FISCAL IMPLICATIONS:***

Fiscal information is not available.

***ARGUMENTS:***

***For:***

In the interest of protecting consumers, the state insurance code requires insurers to keep on file specific information about interest indexed universal life insurance policies. Having access to such information enables consumers to understand more fully the products they purchase and the possible risks involved. The bill would simply extend the same consumer protection to purchasers of interest indexed annuities.

House Bill 6492 (12-3-02)

***POSITIONS:***

The Office of Financial and Insurance Services supports the bill. (11-15-02)

Analyst: J. Caver

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■ 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.