



**House
Legislative
Analysis
Section**

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LIFE POLICY: SALE BY INSURED

**House Bill 4501
Sponsor: Rep. Gerald Law
Committee: Insurance**

Complete to 9-29-95

A SUMMARY OF HOUSE BILL 4501 AS INTRODUCED 3-1-95

The bill would create a new act to prohibit the purchase of a life insurance policy from the insured person for full value of the death benefit or at a discount prior to the death of the insured unless certain conditions were met.

The sale/purchase would only be permitted if the insured person had one or more specified life threatening medical conditions; each beneficiary to the life insurance policy waived his or rights to the death benefit; and the purchaser explained in writing to the insured the possible income tax consequences arising from the sale. Further, an insured person would have 15 days after receipt of the proceeds to cancel the sale and return the proceeds.

The life threatening medical conditions specified in the bill are: malignant tumor; a condition requiring organ transplantation; coronary artery disease resulting in acute infarction or requiring surgery; permanent neurological deficit resulting from cerebral vascular accident; and endstage renal failure. Also included would be other medical conditions that a physician finds and certifies to be life threatening.

A violation of the new act would be a misdemeanor punishable by imprisonment for not more than one year or by a fine of not more than \$500 or both.

The bill would not apply to a lump sum disbursement of not more than 25 percent of the death benefit as permitted in Section 602 of the Insurance Code. That section allows for an advance payment of up to 25 percent of a death benefit from a life insurance policy to help cover the costs of certain specified life-threatening or catastrophic conditions.

House Bill 4501 (9-29-95)