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## TRUST-OWNED LIFE INSURANCE

### House Bill 5642 (Substitute H-1) First Analysis (5-26-98)

**Sponsor: Rep. Kirk A. Profit**  
**Committee: Insurance**

#### ***THE APPARENT PROBLEM:***

Among the many changes made to the Insurance Code by Public Act 227 of 1994 (House Bill 5311) was a provision that allows an employer trust whose sole purpose is providing for the cost of benefits under an employee welfare benefit plan to insure, for its own benefit, the lives of the employer's directors, officers, managers, non-management employees, and retired employees with the "acquiescence" of the insureds. For non-management and retired employees, this means the person has been given written notice of the coverage and has not said in writing that he or she does not want to be covered. Legislation has been introduced that would broaden somewhat the ability of insurance companies to issue trust-owned life insurance (called TOLIs by the industry) by broadening the purposes for which TOLIs can be used. Generally, according its advocates, the legislation would permit trusts to insure lives as employers now can, subject to the stricter requirement that the written consent of the insured be required.

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

The bill would amend Section 2210 of the Insurance Code to allow an employer trust to insure, for its own benefit, the lives of the employer's directors, officers, managers, non-management employees, and retired employees in the same manner as an employer currently can. The lives of non-management and retired employees could only be insured if those persons gave their written consent and the coverage was limited to an amount reasonably commensurate with the employer's projected unfunded liabilities to non-management and retired employees for employee benefit plans. (To accomplish this, the bill would say that an employer trust, like an employer, has an insurable interest in the directors, officers, and employees.)

(Currently under this section of the code, a employer trust can only insure the listed lives if it is a trust established for the sole purpose of providing for the costs of benefits under an employee welfare benefit plan maintained for employees or retired employees, including a sole proprietor or a partner of the employer, and their qualified dependents and beneficiaries. In that case, the lives can be insured with the acquiescence of the insured. For non-management and retired employees, this means the person has been given written notice of the coverage and has not said in writing that he or she does not want to be covered. The bill would substitute "employee benefit plan" for employee welfare benefit plan.")

MCL 500.2210

#### ***FISCAL IMPLICATIONS:***

There is no information at present.

#### ***ARGUMENTS:***

##### ***For:***

The bill would allow employer trusts to insure lives of directors, officers, and employees in the same way and subject to the same conditions as employers themselves can. Further, the current provisions regarding trusts that apply to "employee welfare benefit plans" (i.e., health care plans) would be made to apply to "employee benefit plans," thus allowing the provisions to apply to pension plans as well as health care plans.

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***POSITIONS:***

The Insurance Bureau supports the bill. (5-20-98)

The Prudential Insurance Company supports the bill.  
(5-20-98)

The Life Insurance Association of Michigan supports  
the bill. (5-20-98)

Analyst: C. Couch

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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.