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INSURANCE POLICIES FOR FUNERAL EXPENSES

House Bill 5472
Sponsor: Rep. Susan Tabor
Committee: Senior Health, Security and Retirement

Complete to 7-20-00

A SUMMARY OF HOUSE BILL 5472 AS INTRODUCED 2-29-00

Public Act 318 of 1986 amended the Insurance Code to allow and regulate the practice of assigning proceeds of a life insurance policy or annuity contract to a funeral establishment, cemetery, or seller of cemetery or funeral goods or services to pay the cost of funeral expenses, under certain circumstances. The 1986 legislation permitted life insurers to offer for sale an "associated life insurance policy or annuity contract" (a policy or contract marketed or intended to be assigned as payment for cemetery or funeral goods or services), and in addition allows the assignment of the proceeds of a "nonassociated life insurance policy or annuity contract" (a policy or contract that is not marketed or designed to be assigned). An "associated" policy or contract must have a death benefit that is both sufficient to cover the initial contract price of the goods or services, and that increases annually at a rate of not less than the consumer price index. For a "nonassociated" policy to be assigned, the assignment must be sufficient to cover the initial price of the goods or services, and any increase in the price of the goods or services cannot exceed the consumer price index or the retail price list in effect when the death occurs, whichever is less.

House Bill 5472 would amend this provision to allow a life insurance company to offer associated policies or contracts that do not guarantee an increase at the rate of the consumer price index, but only if the seller of the funeral or cemetery goods and services was provided with the option of offering both indexed and nonindexed policies or contracts. Further, the bill would allow companies to offer a limited death benefit, defined to mean a life insurance policy that has a death benefit equal to the sum of the premiums paid at the time of death for a period not to exceed two years after the date the policy is issued, plus interest on the premium paid at a rate of 10 percent, compounded annually. An associated life insurance policy or annuity contract would have to disclose the death benefit and any reduction in the death benefit if it were a limited death benefit policy. An application for an associated life insurance policy that provides for a limited death benefit would have to contain an acknowledgment that the applicant had been notified of the limited death benefit and the period of limitation. Further, the bill would delete language requiring that the assignment of a nonassociated life insurance policy or annuity contract be sufficient to cover the initial contract price of the cemetery or funeral goods or services. It would require, instead, that the assignment clearly disclose whether the amount assigned is sufficient to cover the initial contract price of the goods or services, and if not, it would have to disclose any existing obligation to pay the difference in price between the amount assigned and the price of the goods or services.

In addition, the code specifies requirements for the assignment of a life insurance policy or annuity contract as payment for cemetery or funeral goods and services. Among other things, the code requires that, in the case of an associated life insurance policy or annuity contract, the death benefit subject to the assignment cannot exceed $5,000, with annual adjustments in accordance with the consumer price index. (The $5,000 limitation dates from 1986; according to the Office of Financial and Insurance Services, as of June 1, 2000, the current inflation-adjusted limitation is $7,565.) The same dollar limitation (and CPI adjustment) applies to the assignment of a nonassociated policy or contract. The bill would increase these maximums to $15,000, while retaining the CPI indexing language.

MCL 500.2080

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