

**FUNERALS: LIFE INSURANCE &  
PREPAID FUNERAL CONTRACTS**

**House Bills 4785 and 4786**

**Sponsor: Rep. Sue Tabor**

**Committee: Senior Health, Security and  
Retirement**

**Complete to 5-21-01**

**A SUMMARY OF HOUSE BILLS 4785 AND 4786 AS INTRODUCED 5-17-01**

The two bills would each amend an act dealing with the prefunding of funeral and cemetery goods and services. House Bill 4785 would amend the Prepaid Funeral Contract Funding Act (MCL 328.224 et al.), which deals with the sale of such goods and services under contracts that require payment in advance of the death of the contract beneficiary. House Bill 4786 would amend the Insurance Code (MCL 500.2080) and addresses assigning the proceeds of life insurance and annuity policies for such goods and services.

The Insurance Code permits and regulates the sale of associated life insurance policies and annuity contracts that are marketed, designed, and intended to be assigned as payment for cemetery goods or services or funeral goods or services. The code requires that such policies and contracts have a death benefit that is sufficient to cover the initial contract price of the cemetery or funeral goods and services and that increases at an annual rate at least equal to the consumer price index. House Bill 4786 would amend the Insurance Code to eliminate this provision and instead:

- Permit the sale of associated life insurance contracts or annuity contracts (those intended to be assigned as payment for cemetery or funeral goods or services) that did not guarantee an increase at the rate of the consumer price increase, but only if the seller was provided with the option of offering both indexed and non-indexed life insurance or annuity contracts; and

- Permit the sale of limited death benefit policies and require that each associated life insurance policy or annuity contract disclose the death benefit and any reduction in the death benefit if it was a limited death benefit policy. Each application for a limited death benefit policy would have to contain an acknowledgement from the applicant that the applicant had been notified of the limited death benefit and the period of limitation. Any limited death benefit period could not exceed two years. The bill would define a "limited death benefit policy" 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 of time not to exceed two years after the policy is issued, plus interest on the premium paid at the rate of five percent compounded annually.

- The bill also would increase the maximum death benefit permitted for associated life insurance policies and annuity contracts to \$15,000 when the first premium was made. The current limit was originally established in statute at \$5,000 but has been adjusted annually for inflation. As of June 1, 2001, the maximum death benefit is scheduled to rise to \$7,837,

House Bills 4785 and 4786 (5-21-01)

according to the Office of Financial and Insurance Services. The new \$15,000 figure would also be adjusted annually.

- The maximum assignment for “nonassociated” life insurance policies or annuity contracts would also be increased so that the initial amount of proceeds assigned would not exceed \$15,000. Nonassociated policies and contracts are those not marketed to be assigned, designed to be assigned, or intended to be assigned as payment for cemetery or funeral goods and services. Nevertheless, all or a portion of the proceeds of such policies can be assigned for cemetery or funeral goods and services

- Currently, if there is an assignment of a nonassociated policy or contract, the assignment must be sufficient to cover the initial contract price of the cemetery or funeral goods and services. House Bill 4786 would eliminate that provision and require instead that the assignment clearly disclose whether the amount assigned was sufficient to cover the initial contract price of the cemetery or funeral goods and services and, if not, any obligation that existed to pay for the difference between the contract price of the goods and services and the amount assigned. (The bill would not affect the provision that requires the assignment to provide that any increase in the price of cemetery or funeral goods and services not exceed the consumer price index or the retail price list in effect when the death occurs, whichever is less.)

House Bill 4785 would amend the Prepaid Funeral Contract Funding Act in the following ways.

- Section 19 of the act allows an applicant for or a recipient of assistance under the Social Welfare Act (e.g., Medicaid, supplemental security income, state disability assistance, or family independence program assistance) to enter into a fully paid guaranteed price prepaid funeral contract without it affecting eligibility for assistance provided the contract does not exceed a specified maximum amount. The current maximum is \$2,000. The bill would raise the maximum to “the amount allowed under Section 2080(6)(g) of the Insurance Code.” That refers to the amount cited above for the pre-death assignment of the proceeds of a life insurance policy or annuity contract for the payment of cemetery or funeral goods and services. As of June 1, 2001, that amount will be \$7,837. As described earlier, under House Bill 4786 the maximum would be increased to \$15,000, adjusted annually for inflation.

[A fully paid guaranteed price contract, as referred to above, is a prepaid funeral contract where the contract fixes the price for specified funeral goods and services regardless of their value at the time of the death of the beneficiary. Under such a contract, there can be no additional charges for the goods and services originally contracted for. Section 19 allows such a contract to be entered into by a potential recipient of assistance. If certain conditions are met (such as adhering to the maximum contract amount), the contract can be made an irrevocable contract and then is not considered an asset in determining eligibility for assistance, including eligibility for Medicaid.]

- The act requires that payments on a prepaid funeral contract be held in escrow by an escrow agent. An escrow agent is required to invest funds only as expressly authorized and cannot invest funds by purchasing life insurance or annuities where the proceeds are not payable

in full until the happening of some event, including but not limited to the death of the contract beneficiary. House Bill 4785 would eliminate this insurance-related restriction.

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.