Legislative Analysis

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LIFE INSURANCE AMENDMENTS, ETC.

House Bill 5146 as enacted
Public Act 139 of 2014
Sponsor: Rep. Kate Segal

House Bill 5147 as enacted
Public Act 140 of 2014
Sponsor: Rep. Ken Goike

House Bill 5148 as enacted
Public Act 141 of 2014
Sponsor: Rep. Marcia Hovey-Wright

House Bill 5149 as enacted
Public Act 142 of 2014
Sponsor: Rep. Tom Cochran

House Bill 5150 as enacted
Public Act 143 of 2014
Sponsor: Rep. Ben Glardon

House Committee: Insurance
Senate Committee: Insurance

Complete to 1-12-15

A SUMMARY OF HOUSE BILLS 5146-5150 AS ENACTED

Each of the bills amends the Insurance Code. Among other things, each of the bills changes language to note the recent creation of the Department of Insurance and Financial Services. This new state department replaces the Office of Insurance Regulation within the Department of Licensing and Regulatory Affairs.

House Bill 5146 deals with group life insurance. It adds several provisions that would make state law conform to the model act from the National Association of Insurance Commissioners (NAIC). These include the following.

** For employee life insurance, a policy could define "employees" to include one or more of the following: (1) the employees of one or more subsidiary corporations; (2) the employees, individual proprietors, and partners of one or more affiliated corporations, proprietorships, or partnerships, if the business of the employer and the affiliated corporations, proprietorships, or partnerships is under common control; (3) the retired employees, former employees, and directors of a corporate employer; and, (4) for a policy issued to insure the employees of a public body, elected or appointed officials.

** For association life insurance, the bill would add, in addition to current association provisions, that group life insurance could be issued to an association, or to a trust, or to the trustees of a fund established or maintained for the benefit of members of one or more associations. Group life insurance could not be issued to an association unless all of the following criteria were met:

- The association at the outset had at least 100 members.

- The association had been organized and maintained for a purpose other than obtaining insurance.
- The association had been in active existence for at least two years.
- The association's bylaws provide that: (1) members must meet at least annually; (2) dues must be collected and contributions solicited from members, except for credit union associations; and (3) members have voting rights and representation on the governing board.

Such an association life policy would be subject to all of the following:

- The policy could insure members of the association, employees of the association, or both members and employees, for the benefit of persons other than the employee's employer.
- The premium must be paid from money contributed by the association, employer members, or covered persons.
- A policy on which no part of the premium comes from money contributed by the covered persons specifically for their insurance must insure all eligible persons, except those who reject coverage in writing.
- However, an insurance company could exclude or limit coverage on an individual when evidence of insurability is not satisfactory.

** The bill would rewrite the provisions on discretionary groups. Under the bill, such group life policies could not be issued unless the director of the Department of Insurance and Financial Services (DIFS) finds that (1) the issuance of the group policy is not contrary to the best interest of the public; (2) the issuance of the policy would result in economies of acquisition and administration; and (3) the benefits of the policy are reasonable in relation to the premiums charged.

Further, the premium for such a policy must be paid from the policy holder's funds, the funds contributed by the covered persons, or both. An insurer could exclude or limit coverage on an individual when evidence of insurability is not satisfactory.

** The certificate that is delivered to an employee by an employer whose life is insured under a group policy would constitute notice to the employee of the conversion rights under a group policy, and a separate notice would not be required at the employee's termination.

** The bill would specify that a group policy offered by an insurer issued in another state could not be issued in Michigan unless the director of DIFS determines that certain Michigan statutory requirements have been met.

For the model act from which these provisions are drawn, see:
http://www.naic.org/store/free/MDL-565.pdf

House Bill 5147 addresses variable life and annuity products. It amends Section 2236 and specifies that a variable life product or variable annuity product approved by the US Securities and Exchange Commission (SEC) for sale in the state would be considered in compliance with the section. The bill also repeals Section 2206, an outdated section that deals with a minor's capacity to receive insurance benefits. That section refers to "a minor who has attained the age of 18"; however, 18 is now the legal age of majority.

House Bill 5148 deals with the definition of qualified assets for the purpose of determining minimum asset requirements of insurance companies under Section 901. Under the bill, qualified assets would include preferred stock of companies organized under the laws of Canada or a province or territory of Canada. (The act currently refers to companies organized under the laws of the United States, any US state, or the District of Columbia.)

House Bill 5149 addresses accelerated benefits. Generally speaking, the term accelerated benefits refers to instances when a portion of a death benefit from life insurance can be paid to the insured before death for certain medical conditions. <u>The bill</u> would specify that accelerated benefits do not include benefits payable to an insured under a long-term care policy. It also would add "chronic illness" as a "qualifying event" that allows the payment of accelerated benefits. "Chronic illness" would be defined as a permanent medical condition that results in an individual being unable to attend to basic physical activities such as eating, toileting, bathing, grooming, dressing, or ambulating. The term would also include a permanent severe cognitive impairment or similar form of dementia.

House Bill 5150 would amend a section dealing with life insurance and annuity contracts. It does two things. First, the bill specifies that an application obtained through electronic means counts as an application, and that the information contained in the application must be endorsed upon or attached to the policy.

Second, the bill would add language regarding refunds of premiums paid for annuity contracts when the contract is canceled during the first 10 days after the date that the customer receives the policy. For a variable annuity, the refund would have to equal <u>the sum of</u>: (1) the difference between the premiums paid, including any policy or contract fees or other charges, and the amounts allocated to any separate accounts under the policy or contract, and (2) the value of the amounts allocated to separate accounts under the policy or contract on the date the returned policy is received by the insurance company or its insurance producer (i.e., the agent).

FISCAL IMPACT:

House Bills 5146 through 5150 would not have a significant fiscal impact on the Department of Insurance and Financial Services (DIFS).

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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.