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BILL ANALYSIS

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House Bill 5146 (as passed by the House)
Sponsor: Representative Kate Segal
House Committee: Insurance
Senate Committee: Insurance

Date Completed: 3-4-14

CONTENT

The bill would amend the Insurance Code to do the following:

-- **Allow a group life insurance policy to define "employees" as employees of one or more subsidiary corporations, as employees, proprietors, or partners of affiliated business entities, as retired or former employees, or as elected or appointed officials.**
-- **Allow a group life insurance policy to be issued to an association, or to a trust or trustee of a fund established or maintained for the benefit of members of one or more associations, provided the association met certain criteria.**
-- **Establish certain requirements for group life insurance offered to a group other than those expressly provided for in the Code.**
-- **Provide that a certificate delivered to an employee by an employer would constitute notice of the conversion rights under a policy.**

The Code provides that group life insurance may be issued covering at least two employees written under a policy issued to an employer or the trustee of a fund established by the employer. The premiums may be paid by the employer, the employees, or the employer and employees jointly. The policy may cover all employees, or any class or classes of employees determined by conditions pertaining to the employment. The bill would allow a policy to define "employees" as one or more of the following:

-- The employees of one or more subsidiary corporations.
-- 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 were under common control.
-- The retired employees, former employees, and directors of a corporate employer.
-- For a policy issued to insure the employees of a public body, elected or appointed officials.

In addition to policies issued as described above, a group life insurance policy could be issued to an association, or a trust or the trustee of a fund established or maintained for the benefit of members of one or more associations. A group policy 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 required all of the following: a) association members would meet at least yearly, b) with the exception of credit unions, the association would collect

dues and solicit contributions from its members, and c) members would have voting rights and representation on the governing board.

A group policy issued to an association as described above would be subject to all of the following requirements: a) the policy could insure members of the association, employees of the association, or employees of members for the benefit of persons other than the employee's employer; b) the premium for the policy would have to be paid from money contributed by the association, the employer members, or covered persons; and c) a policy on which none of the premium came from money contributed by the covered persons specifically for their insurance would have to insure all eligible people, except those rejecting coverage, although an insurer could exclude an individual if evidence of individual insurability were not satisfactory to the insurer.

The Code allows the Commissioner (now the Director of the Department of Insurance and Financial Services) to authorize insurance through a group life insurance policy on a discretionary basis if in the interest of public policy. The Commissioner may deny permission on the basis of finding that the requested group plan would not result in the economics of acquisition and administration that justify a group rate, would present hazards of voluntary adverse selection not present in other group policies, would be actuarially unsound, or would preclude individual selection. The Code limits the number of individuals in a discretionary group to 250. The Code also allows the Commissioner to authorize the designation of a trustee to be the policyholder in such a group, and determine the percentage of members required to participate, the types of coverage to be offered, and the amount of insurance to be provided.

The bill would replace the discretionary group provisions in the Code. Under the bill, a group life insurance offered to a group other than employees or associations could not be issued unless the Director of the Department of Insurance and Financial Services found all of the following: a) the issuance of the group policy was not contrary to the best interest of the public; b) the issuance of the group policy was reasonable in relation to the premiums charged; and c) the benefits of the group policy were reasonable in relation to the premiums charged. The premium for the policy would have to be paid from the policy holder's funds, the funds contributed by the covered person, or both. An insurer would be permitted to exclude or limit the coverage on an individual as to whom evidence of individual insurability was not satisfactory to the insurer. The Director would have to determine that substantially similar requirements had been met before a group policy offered by an insurer issued in another state could be issued in this State.

The Code requires that a certificate be issued to an employer for delivery to the employee. The certificate must contain a description of the employee's insurance coverage, to whom the insurance is payable, and a statement that if the employee is terminated for any reason, he or she may have an insurance policy issued to him or her in one of the forms customarily issued by the company. Under the bill, a certificate would be notice to the employee of his or her conversion rights under a group policy, and a separate notice at the time of termination would not be required.

MCL 500.4404 et al. Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Glenn Steffens

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.