

HOUSE BILL No. 6491

November 7, 2002, Introduced by Reps. Van Woerkom and Richner and referred to the Committee on Insurance and Financial Services.

A bill to amend 1956 PA 218, entitled
"The insurance code of 1956,"
by amending section 602 (MCL 500.602), as amended by 1989 PA 35,
and by adding section 603.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 602. (1) "Life" insurance is insurance upon the lives
2 and health of persons and every insurance pertaining thereto, and
3 to grant, purchase, or dispose of annuities. Notwithstanding any
4 other provision of law, life insurance includes insurance upon
5 the lives of persons which insurance prepays ~~in a lump sum not~~
6 ~~more than 25% of~~ the death benefit. ~~based on 1 or more of the~~
7 ~~following medical conditions if considered to be life threatening~~
8 ~~or of a catastrophic nature:~~
9 ~~(a) Malignant tumors.~~

~~(b) Conditions requiring organ transplantation.~~

~~(c) Coronary artery disease resulting in acute infarction or requiring surgery.~~

~~(d) Permanent neurological deficit resulting from cerebral vascular accident.~~

~~(e) Endstage renal failure.~~

~~(f) Other medical conditions which the commissioner finds, after an opportunity for a hearing pursuant to the administrative procedures act of 1969, Act No. 306 of the Public Acts of 1969, being sections 24.201 to 24.328 of the Michigan Compiled Laws, to be either life threatening or of a catastrophic nature.~~

(2) Transaction of life insurance includes the issuance of policies of life and endowment insurance and contracts for the payment of annuities and pure endowments, and contracts supplemental ~~thereto which~~ TO THOSE THAT contain only those provisions relating to accident and sickness insurance as provide additional benefits ~~in case of~~ FOR death or dismemberment or loss of sight by accident or as operate to safeguard those policies or contracts against lapse or to give a special surrender value or special benefit or an annuity if the insured or annuitant shall become totally and permanently disabled, as defined by the contract or supplemental contract.

(3) All corporations, associations, partnerships, or individuals, doing business in this state under any charter, compact, agreement, or statute of this or any other state, involving an insurance, guaranty, contract, or pledge, for the payment of annuities or endowments, or for the payment of money to families,

1 or representatives of policy or certificate holders or members,
2 ~~shall be~~ ARE considered ~~and deemed to be~~ life insurance com-
3 panies within the meaning of the laws relating to life insurance
4 within this state.

5 SEC. 603. (1) AS USED IN THIS SECTION:

6 (A) "ACCELERATED BENEFITS" MEANS BENEFITS PAYABLE UNDER A
7 LIFE INSURANCE CONTRACT TO A POLICYOWNER OR CERTIFICATEHOLDER,
8 DURING THE LIFETIME OF THE INSURED, IN ANTICIPATION OF DEATH OR
9 UPON THE OCCURRENCE OF SPECIFIED LIFE-THREATENING OR CATASTROPHIC
10 CONDITIONS AS DEFINED BY THE POLICY OR RIDER THAT REDUCE THE
11 DEATH BENEFIT OTHERWISE PAYABLE UNDER THE LIFE INSURANCE CONTRACT
12 AND THAT ARE PAYABLE UPON THE OCCURRENCE OF A SINGLE QUALIFYING
13 EVENT THAT RESULTS IN THE PAYMENT OF A BENEFIT AMOUNT FIXED AT
14 THE TIME OF ACCELERATION.

15 (B) "QUALIFYING EVENT" MEANS 1 OR MORE OF THE FOLLOWING:

16 (i) A MEDICAL CONDITION THAT WOULD RESULT IN A DRASTICALLY
17 LIMITED LIFE SPAN AS SPECIFIED IN THE CONTRACT.

18 (ii) A MEDICAL CONDITION THAT HAS REQUIRED OR REQUIRES
19 EXTRAORDINARY MEDICAL INTERVENTION INCLUDING, BUT NOT LIMITED TO,
20 MAJOR ORGAN TRANSPLANT OR CONTINUOUS ARTIFICIAL LIFE SUPPORT,
21 WITHOUT WHICH THE INSURED WOULD DIE.

22 (iii) A CONDITION THAT USUALLY REQUIRES CONTINUOUS CONFINE-
23 MENT IN AN ELIGIBLE INSTITUTION AS DEFINED IN THE CONTRACT IF THE
24 INSURED IS EXPECTED TO REMAIN THERE FOR THE REST OF HIS OR HER
25 LIFE.

26 (iv) A MEDICAL CONDITION THAT WOULD, IN THE ABSENCE OF
27 EXTENSIVE OR EXTRAORDINARY MEDICAL TREATMENT, RESULT IN A

1 DRASTICALLY LIMITED LIFE SPAN, INCLUDING, BUT NOT LIMITED TO,
2 CORONARY ARTERY DISEASE RESULTING IN AN ACUTE INFARCTION OR
3 REQUIRING SURGERY, PERMANENT NEUROLOGICAL DEFICIT RESULTING FROM
4 CEREBRAL VASCULAR ACCIDENT, END STAGE RENAL FAILURE, ACQUIRED
5 IMMUNE DEFICIENCY SYNDROME, OR OTHER MEDICAL CONDITIONS THAT THE
6 COMMISSIONER HAS APPROVED FOR ANY PARTICULAR FILING.

7 (v) OTHER QUALIFYING EVENTS THAT THE COMMISSIONER APPROVES
8 FOR A PARTICULAR FILING.

9 (2) AN ACCELERATED BENEFIT RIDER AND A LIFE INSURANCE POLICY
10 WITH ACCELERATED BENEFIT PROVISIONS ARE PRIMARILY MORTALITY RISKS
11 RATHER THAN MORBIDITY RISKS AND ARE LIFE INSURANCE BENEFITS
12 SUBJECT TO ALL OF THE FOLLOWING:

13 (A) CHAPTERS 40 AND 44.

14 (B) SHALL PROVIDE THE OPTION TO TAKE THE BENEFIT AS A LUMP
15 SUM AND NOT AS AN ANNUITY CONTINGENT UPON THE LIFE OF THE
16 INSURED.

17 (C) SHALL HAVE NO RESTRICTIONS ON THE USE OF THE PROCEEDS.

18 (D) IF ANY DEATH BENEFIT REMAINS AFTER PAYMENT OF AN ACCEL-
19 ERATED BENEFIT, SHALL NOT AFFECT THE ACCIDENTAL DEATH BENEFIT
20 PROVISION, IF ANY, BY THE PAYMENT OF THE ACCELERATED BENEFIT.

21 (E) SHALL INCLUDE THE TERMINOLOGY "ACCELERATED BENEFIT" IN
22 THE DESCRIPTIVE TITLE AND NOT BE DESCRIBED OR MARKETING AS
23 LONG-TERM CARE INSURANCE OR AS PROVIDING LONG-TERM CARE
24 BENEFITS.

25 (3) EXCEPT AS OTHERWISE PROVIDED, THE INSURER OF AN ACCELER-
26 ATED BENEFIT RIDER OR LIFE INSURANCE POLICY WITH ACCELERATED
27 BENEFIT PROVISIONS IS REQUIRED TO OBTAIN FROM AN ASSIGNEE OR

1 IRREVOCABLE BENEFICIARY A SIGNED ACKNOWLEDGMENT OF CONCURRENCE
2 FOR PAYOUT PRIOR TO THE PAYMENT OF THE ACCELERATED BENEFIT. IF
3 THE INSURER MAKING THE ACCELERATED BENEFIT IS ITSELF THE ASSIGNEE
4 UNDER THE POLICY, AN ACKNOWLEDGMENT IS NOT REQUIRED.

5 (4) AN INSURER OF AN ACCELERATED BENEFIT RIDER OR LIFE
6 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS SHALL PRO-
7 VIDE A DISCLOSURE STATEMENT AT THE TIME OF APPLICATION AND AT THE
8 TIME THE ACCELERATED BENEFIT PAYMENT REQUEST IS SUBMITTED THAT
9 RECEIPT OF THESE ACCELERATED BENEFITS MAY BE TAXABLE AND THAT
10 ASSISTANCE SHOULD BE SOUGHT FROM A PERSONAL TAX ADVISOR. THE
11 DISCLOSURE STATEMENT SHALL BE PROMINENTLY DISPLAYED ON THE FIRST
12 PAGE OF THE POLICY OR RIDER AND ANY OTHER RELATED DOCUMENTS. IF
13 A POLICYOWNER OR CERTIFICATEHOLDER OF AN ACCELERATED BENEFIT
14 RIDER OR LIFE INSURANCE POLICY WITH ACCELERATED BENEFIT PROVI-
15 SIONS REQUESTS AN ACCELERATION, THE INSURER SHALL SEND A STATE-
16 MENT TO THE POLICYOWNER OR CERTIFICATEHOLDER AND IRREVOCABLE BEN-
17 EFICIARY SHOWING ANY EFFECT THAT THE PAYMENT OF THE ACCELERATED
18 BENEFIT WILL HAVE ON THE POLICY'S CASH VALUE, ACCUMULATION
19 ACCOUNT, DEATH BENEFIT, PREMIUM, POLICY LOANS, AND POLICY LIENS.
20 THE STATEMENT SHALL DISCLOSE THAT RECEIPT OF ACCELERATED BENEFIT
21 PAYMENTS MAY ADVERSELY AFFECT THE RECIPIENT'S ELIGIBILITY FOR
22 MEDICAID OR OTHER GOVERNMENT BENEFITS OR ENTITLEMENTS, MAY BE
23 TAXABLE, AND THAT ASSISTANCE SHOULD BE SOUGHT FROM A PERSONAL TAX
24 ADVISOR. IF A PREVIOUS DISCLOSURE STATEMENT BECOMES INVALID AS A
25 RESULT OF AN ACCELERATION OF THE DEATH BENEFIT, THE INSURER SHALL
26 SEND A REVISED DISCLOSURE STATEMENT TO THE POLICYOWNER OR
27 CERTIFICATEHOLDER AND IRREVOCABLE BENEFICIARY. IF THE INSURER

1 AGREES TO ACCELERATE DEATH BENEFITS, THE INSURER SHALL ISSUE AN
2 AMENDED SCHEDULE PAGE TO THE POLICYHOLDER TO REFLECT, OR SHALL
3 NOTIFY THE CERTIFICATEHOLDER UNDER A GROUP POLICY OF, ANY NEW,
4 REDUCED IN-FORCE FACE AMOUNT OF THE CONTRACT.

5 (5) A WRITTEN DISCLOSURE, INCLUDING, BUT NOT NECESSARILY
6 LIMITED TO, A BRIEF DESCRIPTION OF THE ACCELERATED BENEFIT AND
7 DEFINITIONS OF THE CONDITIONS OR OCCURRENCES TRIGGERING PAYMENT
8 OF THE BENEFITS SHALL BE GIVEN TO THE APPLICANT FOR AN ACCELER-
9 ATED BENEFIT RIDER OR LIFE INSURANCE POLICY WITH ACCELERATED BEN-
10 EFIT PROVISIONS. THE DESCRIPTION SHALL INCLUDE AN EXPLANATION OF
11 ANY EFFECT OF THE PAYMENT OF A BENEFIT ON THE POLICY'S CASH
12 VALUE, ACCUMULATION ACCOUNT, DEATH BENEFIT, PREMIUM, POLICY
13 LOANS, AND POLICY LIENS. FOR AGENT SOLICITED INSURANCE, THE
14 AGENT SHALL PROVIDE THE DISCLOSURE FORM TO THE APPLICANT PRIOR TO
15 OR CONCURRENTLY WITH THE APPLICATION. ACKNOWLEDGMENT OF THE DIS-
16 CLOSURE SHALL BE SIGNED BY THE APPLICANT AND WRITING AGENT. FOR
17 A SOLICITATION BY DIRECT RESPONSE METHODS, THE INSURER SHALL PRO-
18 VIDE THE DISCLOSURE FORM TO THE APPLICANT AT THE TIME THE POLICY
19 IS DELIVERED, WITH A NOTICE THAT A FULL PREMIUM REFUND SHALL BE
20 RECEIVED IF THE POLICY IS RETURNED TO THE COMPANY WITHIN THE FREE
21 LOOK PERIOD. FOR GROUP INSURANCE POLICIES, THE DISCLOSURE FORM
22 SHALL BE CONTAINED AS PART OF THE CERTIFICATE OF COVERAGE OR ANY
23 RELATED DOCUMENT FURNISHED BY THE INSURER FOR THE
24 CERTIFICATEHOLDER.

25 (6) IF THERE IS A PREMIUM OR COST OF INSURANCE CHARGE, THE
26 INSURER SHALL GIVE THE APPLICANT FOR AN ACCELERATED BENEFIT RIDER
27 OR LIFE INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS A

1 GENERIC ILLUSTRATION NUMERICALLY DEMONSTRATING ANY EFFECT OF THE
2 PAYMENT OF A BENEFIT ON THE POLICY'S CASH VALUE, ACCUMULATION
3 ACCOUNT, DEATH BENEFIT, PREMIUM, POLICY LOANS, AND POLICY LIENS.
4 FOR AGENT SOLICITED INSURANCE, THE AGENT SHALL PROVIDE THE ILLUS-
5 TRATION TO THE APPLICANT PRIOR TO OR CONCURRENTLY WITH THE
6 APPLICATION. FOR A SOLICITATION BY DIRECT RESPONSE METHODS, THE
7 INSURER SHALL PROVIDE THE ILLUSTRATION TO THE APPLICANT AT THE
8 TIME THE POLICY IS DELIVERED. FOR GROUP INSURANCE POLICIES, THE
9 DISCLOSURE FORM SHALL BE CONTAINED AS PART OF THE CERTIFICATE OF
10 COVERAGE OR ANY RELATED DOCUMENT FURNISHED BY THE INSURER FOR THE
11 CERTIFICATEHOLDER.

12 (7) AN INSURER OF AN ACCELERATED BENEFIT RIDER OR LIFE
13 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS WITH FINANC-
14 ING OPTIONS OTHER THAN AS DESCRIBED IN SUBSECTION (12)(B) SHALL
15 DISCLOSE TO THE POLICYOWNER ANY PREMIUM OR COST OF INSURANCE
16 CHARGE FOR THE ACCELERATED BENEFIT. THE INSURER SHALL MAKE A
17 REASONABLE EFFORT TO ASSURE THAT THE CERTIFICATEHOLDER IS AWARE
18 OF ANY ADDITIONAL PREMIUM OR COST OF INSURANCE CHARGE IF THE CER-
19 TIFICATEHOLDER IS REQUIRED TO PAY A CHARGE. UPON REQUEST OF THE
20 COMMISSIONER, AN INSURER SHALL FURNISH AN ACTUARIAL DEMONSTRATION
21 DISCLOSING THE METHOD OF ARRIVING AT ITS COST FOR THE ACCELERATED
22 BENEFIT.

23 (8) THE INSURER OF AN ACCELERATED BENEFIT RIDER OR LIFE
24 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS SHALL DIS-
25 CLOSE TO THE POLICYOWNER ANY ADMINISTRATIVE EXPENSE CHARGE. THE
26 INSURER SHALL MAKE A REASONABLE EFFORT TO ASSURE THAT THE

1 CERTIFICATEHOLDER IS AWARE OF ANY ADMINISTRATIVE EXPENSE CHARGE
2 IF THE CERTIFICATEHOLDER IS REQUIRED TO PAY THE CHARGE.

3 (9) AN ACCELERATED BENEFIT PROVISION SHALL BE EFFECTIVE AS
4 FOLLOWS:

5 (A) ON THE EFFECTIVE DATE OF THE POLICY OR RIDER FOR
6 ACCIDENTS.

7 (B) NO MORE THAN 30 DAYS AFTER THE EFFECTIVE DATE OF THE
8 POLICY OR RIDER FOR ILLNESS.

9 (10) THE INSURER OF AN ACCELERATED BENEFIT RIDER OR LIFE
10 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS MAY OFFER A
11 WAIVER OF PREMIUM FOR THE ACCELERATED BENEFIT PROVISION IN THE
12 ABSENCE OF A REGULAR WAIVER OF PREMIUM PROVISION BEING IN
13 EFFECT. AT THE TIME THE BENEFIT IS CLAIMED, THE INSURER SHALL
14 EXPLAIN ANY CONTINUING PREMIUM REQUIREMENT TO KEEP THE POLICY IN
15 FORCE.

16 (11) AN INSURER OF AN ACCELERATED BENEFIT RIDER OR LIFE
17 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS SHALL NOT
18 UNFAIRLY DISCRIMINATE AMONG INSUREDS WITH DIFFERING QUALIFYING
19 EVENTS COVERED UNDER THE POLICY OR AMONG INSUREDS WITH SIMILAR
20 QUALIFYING EVENTS COVERED UNDER THE POLICY. AN INSURER SHALL NOT
21 APPLY FURTHER CONDITIONS ON THE PAYMENT OF THE ACCELERATED BENE-
22 FITS OTHER THAN THOSE CONDITIONS SPECIFIED IN THE POLICY OR
23 RIDER.

24 (12) THE INSURER OF AN ACCELERATED BENEFIT RIDER OR LIFE
25 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS MAY DO ANY
26 OF THE FOLLOWING:

1 (A) REQUIRE A PREMIUM CHARGE OR COST OF INSURANCE CHARGE FOR
2 THE ACCELERATED BENEFIT IF BASED ON SOUND ACTUARIAL PRINCIPLES.
3 FOR GROUP INSURANCE, THE ADDITIONAL COST MAY ALSO BE REFLECTED IN
4 THE EXPERIENCE RATING.

5 (B) PAY A PRESENT VALUE OF THE FACE AMOUNT. THE CALCULATION
6 SHALL BE BASED ON ANY APPLICABLE ACTUARIAL DISCOUNT APPROPRIATE
7 TO THE POLICY DESIGN. THE INTEREST RATE OR INTEREST RATE METHOD-
8 OLOGY USED IN THE CALCULATION SHALL BE BASED ON SOUND ACTUARIAL
9 PRINCIPLES AND DISCLOSED IN THE CONTRACT OR ACTUARIAL
10 MEMORANDUM. THE MAXIMUM INTEREST RATE USED SHALL BE NO GREATER
11 THAN THE GREATER OF THE CURRENT YIELD ON 90-DAY TREASURY BILLS OR
12 THE CURRENT MAXIMUM STATUTORY ADJUSTABLE POLICY LOAN INTEREST
13 RATE.

14 (C) ACCRUE AN INTEREST CHARGE ON THE AMOUNT OF THE ACCELER-
15 ATED BENEFITS. THE INTEREST RATE OR INTEREST RATE METHODOLOGY
16 USED IN THE CALCULATION SHALL BE BASED ON SOUND ACTUARIAL PRINCI-
17 PLES AND DISCLOSED IN THE CONTRACT OR ACTUARIAL MEMORANDUM. THE
18 MAXIMUM INTEREST RATE USED SHALL BE NO GREATER THAN THE GREATER
19 OF THE CURRENT YIELD ON 90-DAY TREASURY BILLS OR THE CURRENT MAX-
20 IMUM STATUTORY ADJUSTABLE POLICY LOAN INTEREST RATE. THE INTER-
21 EST RATE ACCRUED ON THE PORTION OF THE LIEN THAT IS EQUAL IN
22 AMOUNT TO THE CASH VALUE OF THE CONTRACT AT THE TIME OF THE BENE-
23 FIT ACCELERATION SHALL BE NO MORE THAN THE POLICY LOAN INTEREST
24 RATE STATED IN THE CONTRACT.

25 (13) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBSECTION, IF AN
26 ACCELERATED BENEFIT ON AN ACCELERATED BENEFIT RIDER OR LIFE
27 INSURANCE POLICY WITH ACCELERATED BENEFIT PROVISIONS IS PAYABLE,

1 THERE SHALL BE NO MORE THAN A PRO RATA REDUCTION IN THE CASH
2 VALUE BASED ON THE PERCENTAGE OF DEATH BENEFITS ACCELERATED TO
3 PRODUCE THE ACCELERATED BENEFIT PAYMENT. ALTERNATIVELY, THE PAY-
4 MENT OF ACCELERATED BENEFITS, ANY ADMINISTRATIVE EXPENSE CHARGES,
5 ANY FUTURE PREMIUMS, AND ANY ACCRUED INTEREST MAY BE CONSIDERED A
6 LIEN AGAINST THE DEATH BENEFIT OF THE POLICY OR RIDER AND THE
7 ACCESS TO THE CASH VALUE MAY BE RESTRICTED TO ANY EXCESS OF THE
8 CASH VALUE OVER THE SUM OF ANY OTHER OUTSTANDING LOANS AND THE
9 LIEN. FUTURE ACCESS TO ADDITIONAL POLICY LOANS MAY BE LIMITED TO
10 ANY EXCESS OF THE CASH VALUE OVER THE SUM OF THE LIEN AND ANY
11 OTHER OUTSTANDING POLICY LOANS.

12 (14) IF PAYMENT OF AN ACCELERATED BENEFIT ON AN ACCELERATED
13 BENEFIT RIDER OR LIFE INSURANCE POLICY WITH ACCELERATED BENEFIT
14 PROVISIONS RESULTS IN A PRO RATA REDUCTION IN THE CASH VALUE, THE
15 PAYMENT MAY NOT BE APPLIED TOWARD REPAYING AN AMOUNT GREATER THAN
16 A PRO RATA PORTION OF ANY OUTSTANDING POLICY LOANS.

17 (15) FOR AN ACCELERATED BENEFIT RIDER OR LIFE INSURANCE
18 POLICY WITH ACCELERATED BENEFIT PROVISIONS, A QUALIFIED ACTUARY
19 SHALL DESCRIBE THE ACCELERATED BENEFITS, THE RISKS, THE EXPECTED
20 COSTS, AND THE CALCULATION OF STATUTORY RESERVES IN AN ACTUARIAL
21 MEMORANDUM. THE INSURER SHALL MAINTAIN IN ITS FILES DESCRIPTIONS
22 OF THE BASES AND PROCEDURES USED TO CALCULATE BENEFITS PAYABLE.
23 THESE DESCRIPTIONS AND THE ACTUARIAL MEMORANDUM SHALL BE MADE
24 AVAILABLE FOR EXAMINATION BY THE COMMISSIONER UPON REQUEST.

25 (16) IF BENEFITS ARE PROVIDED THROUGH THE ACCELERATION OF
26 BENEFITS UNDER GROUP OR INDIVIDUAL LIFE POLICIES OR RIDERS TO AN
27 ACCELERATED BENEFIT RIDER OR LIFE INSURANCE POLICY WITH

1 ACCELERATED BENEFIT PROVISIONS, POLICY RESERVES SHALL BE
2 DETERMINED IN ACCORDANCE WITH SECTION 834. ALL VALUATION ASSUMP-
3 TIONS USED IN CONSTRUCTING THE RESERVES SHALL BE DETERMINED AS
4 APPROPRIATE FOR STATUTORY VALUATION PURPOSES BY A MEMBER IN GOOD
5 STANDING OF THE AMERICAN ACADEMY OF ACTUARIES. THE ACTUARY SHALL
6 FOLLOW BOTH ACTUARIAL STANDARDS AND CERTIFICATION FOR GOOD AND
7 SUFFICIENT RESERVES. RESERVES IN THE AGGREGATE SHOULD BE SUFFI-
8 CIENT TO COVER POLICIES UPON WHICH NO CLAIM HAS YET ARISEN AND
9 POLICIES UPON WHICH AN ACCELERATED CLAIM HAS ARISEN. FOR POLI-
10 CIES AND CERTIFICATES THAT PROVIDE ACTUARIALLY EQUIVALENT BENE-
11 FITS, ADDITIONAL RESERVES DO NOT NEED TO BE ESTABLISHED. POLICY
12 LIENS AND POLICY LOANS, INCLUDING ACCRUED INTEREST, REPRESENT
13 ASSETS OF THE INSURER FOR STATUTORY REPORTING PURPOSES. FOR A
14 POLICY ON WHICH THE POLICY LIEN EXCEEDS THE POLICY'S STATUTORY
15 RESERVE LIABILITY, THE EXCESS SHALL BE HELD AS A NONADMITTED
16 ASSET.