

Introduced: 3/8/82
Referred: Labor & Commerce and
Judiciary

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2 SENATE BILL NO. 841

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to insurance policy provisions on
7 policy loans and reinstatement of policies; and provid-
8 ing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 21.45.080(a) is amended to read:

11 (a) There shall be a provision that after three full years'
12 premiums have been paid and after the policy has a cash surrender value
13 and while no premium is in default beyond the grace period for payment,
14 the insurer will advance, on proper assignment or pledge of the policy
15 and on the sole security of the policy, at a specified rate of interest
16 not exceeding eight percent a year, an amount equal to or, at the option
17 of the party entitled to it, less than the loan value of the policy.
18 The director may authorize rates of interest in excess of six percent
19 only on a finding that the holders of policies will benefit from the
20 increased earnings of the insurer resulting from the higher rates,
21 through the use of higher dividends or lower premiums, or both. The
22 loan value of the policy shall be at least equal to the cash surrender
23 value at the end of the then current policy year, except that the insurer
24 may deduct, either from the loan value or from the proceeds of the loan,
25 an existing indebtedness not already deducted in determining the cash
26 surrender value including interest then accrued but not due, the unpaid
27 balance of the premium for the current policy year, and interest on the
28 loan to the end of the current policy year. The policy may also provide
29 that if interest on an indebtedness is not paid when due it shall then

1 be added to the existing indebtedness and shall bear interest at the
2 same rate, and that if and when the total indebtedness on the policy,
3 including interest due or accrued, equals or exceeds the amount of the
4 loan value of the policy, the policy shall terminate and become void.
5 The policy shall reserve to the insurer the right to defer the granting
6 of a loan, other than for the payment of a premium to the insurer, for
7 six months after the date of the loan application. The policy, at the
8 insurer's option, may provide for automatic premium loan, subject to an
9 election of the party entitled to elect. Except as provided in (e) of
10 this section, the required interest rates on policy loans set out in
11 this section apply only to policies issued before June 30, 1982.

12 * Sec. 2. AS 21.45.080 is amended by adding new subsections to read:

13 (c) A policy issued after June 30, 1982 shall have a provision
14 permitting a maximum interest rate on a policy loan of eight percent a
15 year, or a provision permitting an adjustable maximum interest rate
16 established under this subsection. An adjustable maximum rate of inter-
17 est on a policy loan determined under this subsection may not exceed the
18 higher of the published monthly average for the calendar month ending
19 two months before the date on which the rate is determined, or the rate
20 used to compute cash surrender values under the policy during the appli-
21 cable period plus one percentage point. If an adjustable maximum rate
22 of interest is used in a policy under this subsection the policy shall
23 contain a provision that states times for the adjustment of the interest
24 rate for that policy. Adjustment shall occur at least once every 12
25 months, but not more often than once every three months. The interest
26 rate being charged may be increased if the published monthly average
27 increases by one-half percent or more and the interest rate being
28 charged must be reduced if the published monthly average decreases by
29 one-half percent or more. A life insurer shall (1) notify the policy-

1 holder of the initial rate of interest on the loan at the time a cash
2 loan is made; (2) notify a policyholder who obtains a premium loan of
3 the initial rate of interest on the loan as soon as it is reasonably
4 possible to do so after making an initial premium loan; except as
5 provided in (3) of this subsection, notice does not have to be given to
6 the policyholder when a second or subsequent premium loan is added; (3)
7 send reasonable advance notice of any increase in the rate to a policy-
8 holder who has a policy loan; and (4) include other relevant informa-
9 tion on adjustment of interest rates in a notice required under this
10 subsection. The loan value of the policy shall be determined in accor-
11 dance with (a) of this section. A policy may not be terminated in a
12 policy year because the interest rate has changed during that policy
13 year.

14 (d) In (c) of this section

15 (1) "interest rate" includes a rate of interest charged for
16 reinstatement of policy loans for the period during and after the lapse
17 of a policy;

18 (2) "policy" includes certificates issued by a fraternal
19 benefit society and annuity contracts that provide for policy loans;

20 (3) "policy loan" includes a premium loan made under a policy
21 to pay a premium that was not paid to the life insurer as it became due;

22 (4) "policyholder" includes an owner of a policy or a person
23 designated to pay policy premiums according to the records of the life
24 insurer;

25 (5) "published monthly average" means the monthly average of
26 corporate bond yields as published by Moody's Investors Service, Inc.,
27 or its successor, or if Moody's corporate bond yield average-monthly
28 average corporates is not published, a substantially similar average,
29 established by regulation adopted by the director.

1 (e) The provisions of (c) of this section on interest rates apply
2 to all policy loans made after June 30, 1982 except that if a policy
3 holder agrees in writing to the applicability of (c) of this section to
4 a policy issued before July 1, 1981, that subsection applies to the
5 policy.

6 * Sec. 3. AS 21.45.110 is repealed and reenacted to read:

7 Sec. 21.45.110. REINSTATEMENT. Except as provided in AS 21.45.-
8 230, there shall be a provision that unless (1) the policy has been
9 surrendered for its cash surrender value, (2) its cash surrender value
10 has been exhausted, or (3) the paid-up term insurance, if any, has
11 expired, the policy will be reinstated at any time within three years
12 (or two years in the case of industrial life insurance policies) from
13 the date of premium default upon written application, the production of
14 evidence of insurability satisfactory to the insurer, the payment of all
15 premiums in arrears with interest at a rate not exceeding six percent a
16 year compounded annually, and the payment or reinstatement of interest
17 due to the insurer on a loan on the policy with interest as provided in
18 AS 21.45.080.

19 * Sec. 4. This Act takes effect July 1, 1982.
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