

Original sponsor: Labor and Commerce
Committee

Offered: 4/8/82
Referred: Judiciary

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2 CS FOR SENATE BILL NO. 841 (L&C)

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
24 insurer may deduct, either from the loan value or from the proceeds of
25 the loan, an existing indebtedness not already deducted in determining
26 the cash surrender value including interest then accrued but not due,
27 the unpaid balance of the premium for the current policy year, and
28 interest on the loan to the end of the current policy year. The policy
29 may also provide that if interest on an indebtedness is not paid when

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

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

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

1 interest rate being charged must be reduced if the published monthly
2 average decreases by one-half percent or more. A life insurer shall (1)
3 notify the policyholder of the initial rate of interest on the loan at
4 the time a cash loan is made; (2) notify a policyholder who obtains a
5 premium loan of the initial rate of interest on the loan as soon as it
6 is reasonably possible to do so after making an initial premium loan;
7 except as provided in (3) of this subsection, notice does not have to be
8 given to the policyholder when a second or subsequent premium loan is
9 added; (3) send reasonable advance notice of any increase in the rate to
10 a policyholder who has a policy loan; and (4) include other relevant
11 information on adjustment of interest rates in a notice required under
12 this subsection. The loan value of the policy shall be determined in
13 accordance with (a) of this section. A policy may not be terminated in
14 a policy year as the sole result of a change in the interest rate during
15 that policy year. If an interest rate changes, the insurer shall main-
16 tain coverage during the policy year until the date on which the policy
17 would have terminated if the interest rate had not changed.

18 (d) In (c) of this section

19 (1) "interest rate" includes a rate of interest charged for
20 reinstatement of policy loans for the period during and after the lapse
21 of a policy;

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

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

26 (4) "policyholder" includes an owner of a policy or a person
27 designated to pay policy premiums according to the records of the life
28 insurer;

29 (5) "published monthly average" means the monthly average of

1 corporate bond yields as published by Moody's Investors Service, Inc.,
2 or its successor, or if Moody's corporate bond yield average-monthly
3 average corporates is not published, a substantially similar average,
4 established by regulation adopted by the director.

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

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

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

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