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COMMITTEE REPORT

HOUSE

5/26
Rules

(7)

FURTHER:

4/22/82

Date: May 26 1982

Mr. Speaker:

The Committee on JUDICIARY has had CSSB 841 (L&C)

"An Act relating to insurance policy provisions on policy loans and reinstatement of policies; and providing for an effective date."

under consideration and reports it back as follows:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
- and recommends _____ new title
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation *1200 attached*
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

James H. Barnes

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Charles Adams No Rec
Freeman No Rec
POOR REC: No Rec

James H. Barnes
CHAIRMAN

COMMITTEE REPORT

HOUSE

4/22
~~4/22~~

FURTHER:

Judiciary

(5)

4/20/82

Date: 4-22-82

Mr. Speaker:

The Committee on Labor & Commerce has had CSSR 841 (L&C)
"An Act relating to insurance policy provisions on policy loans
and reinstatement of policies; and providing for an effective date."

under consideration and reports it back as follows:

- do pass [] do not pass
- [] do pass with attached amendments(s)
- [] replace with CS for _____ [] same title
[] new title
- and recommends _____
- [] AND attaches a "Letter of Intent" [] New Fiscal Note
- reports it back without recommendation
- [] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

B. J. Carls - do pass

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Terry Mastor - no rec.

B. J. Carls - no rec.

Terry Mastor
CHAIRMAN

OF COUNSEL
H. E. MONAGLE

ROBERTSON, MONAGLE, EASTAUGH & BRADLEY

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May 28, 1982

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The Honorable John A. Fuller
Chairman House Rules Committee
Pouch V
Juneau, AK 99811

Re: CS For Senate Bill 841

Dear Representative Fuller:

This bill received several technical amendments in the Senate conforming it to the meaning of the bill recommended for enactment by the National Association of Insurance Commissioners. As amended, the bill was passed by the Senate by a vote of 18-1.

This bill has been before the legislatures of the several states during their 1981 and 1982 sessions. As of May 24, 1982, 32 states have enacted the bill and in three of those states, three of the enactments are awaiting gubernatorial action.

My representation is on behalf of the American Council of Life Insurers which favors its enactment. Generally, the bill if enacted will over a period of time result in an overall cost reduction which will in turn allow the writing of life insurance policies offered at a lower premium or higher dividends. I am also informed most insurers will continue to offer policies containing loan rates of 6%, 8% and variable rates respectively, with the former at higher premiums and the latter with the lowest premiums.

I am also advised that the Division of Insurance has testified in favor of enactment of this bill as amended. A more detailed discussion of the bill follows.

All of us have been aware that in the last two or three years interest rates have fluctuated greatly, but mostly upwards. This is not an isolated occurrence, as there have been surges of interest rates on at least four

The Honorable John A. Fuller
May 28, 1982
Page Two

occasions in the past 20 years. It has, however, been an unusually persistent and extreme upward surge, and it has caused a number of distortions and problems throughout the Alaskan and American economies. The Legislature has constantly reviewed the needs of the people of the State with regard to interest rates, and has begun to set maximum rates on a basis which adjusts automatically to known indexes.

One place where high interest rates have caused very substantial problems is in the life insurance industry. In the past several years, borrowings against company funds by a minority of policy holders, at rates which have been held artificially very low by statute, have caused distortions that are bad for the economy, could be dangerous to some companies, and are unfair to the majority policy holders. This letter is intended to introduce you to the problem and sister states.

NATURE OF THE PROBLEM

A survey of 15 representative large life insurance companies was conducted as of September, 1981. That survey showed that loans to policy holders at rates of 5%, 6%, and 8% in the month of September alone aggregated over \$750 Million for the 15 companies. This was 9% more than was lent the month before, and 82% more than was lent by the same companies in September of 1980. In 1980, net lendings to policy holders by the same 15 companies totaled nearly \$4 Billion. That was a benefit to the borrowers, of course, but everyone else lost.

The diversion of company funds to very low interest loans to some policy holders is dramatically unfair to those who do not borrow. As one might expect, the heavy borrowing is for the most part done by those policy holders who have very large policies and some degree of financial sophistication. A majority of policy holders do not borrow against their policies, but retain their values for the purposes originally intended, the security of dependents in the case of the death of the insured. Because the diversion of these funds for policy loans means a substantial decrease in earnings as well as liquidity, the companies are unable to lower their premiums or pay higher dividends, and that is an impact that reaches those who do not borrow just as much as it reaches those who do.

The surge of policy loans has also restricted investment capital, at a time when the country is short of capital. To the extent that companies' funds were tied up

in low-rate loans, they have been unable to make the kind of capital investments that they are normally involved in. This, in itself, is a substantial distortion of the economy, since many companies planning plants, office buildings, real estate developments, and other investments have not been able to find alternative sources of funding.

Some companies, faced with an extraordinary and unprecedented demand for policy loan funds, have had to raise funds by sales of securities, often at substantial losses. Some companies have not been able to liquidate enough securities, and have had to borrow at rates up to 20% in order to loan at 5% to 8%. This sort of short term borrowing by life insurance companies is relatively unusual, and obviously cannot be undertaken as a long term practice. Depending upon such factors as long term interest trends and the ability of companies to extricate themselves from long term investments in order to maintain liquidity, this problem could threaten the solvency of some companies.

NATURE OF THE SOLUTION

The bill before you, SB 841, ties interest rates on policy loans to a conservative, stable index which is responsive to long term changes in interest rates. That index is Moody's Corporate Bond Average Yield Index. This index would be applicable only to loans against policies which are issued after the effective date of the act, unless a policy holder specifically agrees in writing that the flexible rate will apply to his earlier issued policy. Other provisions protect the policy holder by requiring specific notices of rate changes at appropriate times, and prohibiting unintended lapses of policy coverage because of interest rate changes.

The general approach used in this bill has been used successfully in Canada for over 10 years. Bills substantially identical to the one proposed were enacted in 1981 in 19 states.

In 1980, the Legislature inserted a requirement in the policy loan section that required the Director of Insurance to make a finding that a proposed policy loan rate would result in a benefit to the policy holder of decreased premium or increased dividend before a rate over 6% could be authorized. That protection will still be in the statute, and the companies have no doubt at all that the benefit will be there.

The Honorable John A. Fuller
May 28, 1982
Page Four

The bill is supported by life insurance companies of all kinds and sizes, by the American Council of Life Insurance, by the National Association of Life Underwriters, and by the Alaska State Association of Life Underwriters. This last support is noteworthy, since many life underwriters have been dubious about any proposal that could increase policy loan interest rates.

Accompanying this letter are a short memorandum explaining the bill, and a copy of the bill with annotations explaining particular provisions in the context of the overall proposal. A substantial amount of additional information concerning the impacts of the recent borrowing trends on the industry, and studies done in particular states about the impacts on companies in those states is available, and I would be happy to attempt to obtain any further information that you might find helpful.

I appreciate that you have many problems before you that seem to you more immediate and pressing. I would not push this bill in this particular year if we were not convinced of its necessity and fairness. Thank you for your consideration and support.

Sincerely,

ROBERTSON, MONAGLE, EASTAUGH & BRADLEY


Michael T. Thomas

For the American Council of Life Insurance

MTT/kmp
Enclosure

MEMORANDUM IN SUPPORT OF SB 841

PURPOSE OF THE BILL:

To expand the loan interest rate provision in life insurance policies, annuity contracts and fraternal benefit society certificates issued on and after the effective date of the bill to permit the offering of policies containing an adjustable maximum interest rate on policy loans.

SUMMARY OF THE PROVISIONS OF THE BILL:

AS 21.45.080 would be amended to authorize the issuance of policies with adjustable as well as fixed policy loan interest rates and a conforming amendment would be made to AS 21.45.110.

The adjustable provision would set the maximum rate on policy loans by reference to the Monthly Average Corporate yield shown in the Moody's Corporate Bond Yield Averages. The frequency with which the rates could be determined and adjusted would be limited. Provision would be made for increases and decreases in the maximum rate as conditions change. A reduction of the rate would be required when the index declined by 1/2%. Appropriate notices to policyholders of interest rate changes and protection against the termination of policies because of increases in the adjustable rate would be provided. Existing policyholders would be permitted to amend their policies to provide for the adjustable rate.

Any change in interest rate is subject to the requirement placed in the statute in 1980 that the Director of Insurance find that policyholders will benefit from higher dividends or lower premiums.

HOW THE BILL WORKS:

Companies for competitive and other reasons may continue to issue policies with a fixed interest rate, no more than 8%. The bill will also permit policies to be issued with a fully adjustable policy loan interest rate with the maximum to be set by reference to an external index. This will permit insurers to attempt to equalize yields on policy loans with other investments. While the bill permits flexible rates to meet changing conditions, it contains strict controls. It will allow companies to reduce premiums and increase dividends on future issues of policies which contain an adjustable provision. The bill would be applicable only to policies issued after its effective date but existing policyholders would be able to request that their policies be amended to provide for the adjustable rate.

A number of external indices, based on both short-term and long-term investment yields, were carefully examined for use in setting the maximum interest rate that could be charged on loans against a policy. It was concluded that the most appropriate would be the Monthly Average Corporates yield shown in Moody's Corporate Bond Yield Averages published by Moody's Investors Services, Inc. This index is based on a broad volume of seasoned long term corporate bonds traded in the market place. While it is responsive to changes in the investment market, it is relatively stable and does not swing widely from month to month as do some of the short-term rates. The Moody's series is widely recognized and respected. It has been adopted as the basis for valuation of life insurance policies and annuities by the National Association of Insurance Commissioners. Also, it is readily available to companies, regulators and individuals since the monthly average rates are published by Moody's Investors Service, Inc. in its Bond Survey shortly after the close of each month. Finally, and most importantly, this index corresponds quite closely to the yields available to life insurance companies on new long-term investments.

The bill contains provisions intended to protect the policyholder by means of notice requirements and protection against an unintended lapse in coverage due to the changing nature of the interest rate. Further, where an adjustable rate is used the maximum must go down as well as being permitted to increase when the index changes.

The bill represents a responsible solution to the policy loan problem and will be a major step toward preventing a serious recurrence of the problems which have been created by the existing fixed rate legislation. It reflects a careful balance between providing insurers with as much flexibility as possible to meet their own policy loan interest rate problems in future issues of policies while recognizing that certain safeguards must be included in order to protect policyholders of those policies.

JUSTIFICATION FOR THE BILL:

General.

Life insurance policy loans are the only form of borrowing from financial institutions limited by Alaska law to an interest rate of 8%. The difference between the present rates allowed on policies and the highest rates of interest which banks and other lenders have been allowed to charge in recent years has often been substantial. This has caused serious problems for insurers and their policyholders, as well as resulting in a shortage of availability of needed capital.

Tight credit markets and high interest rates have caused a serious policy loan drain on life insurers, now more than \$45 billion, requiring companies to borrow and raise funds by selling securities in depressed markets to fund the abnormal policy loan demand. Further, since normal investment funds have been diverted to policy loans, companies have been made unable to take advantage of higher yields of 10%, 12% and 15%. Consequently, less investment income has become available to benefit all policyholders through either higher dividends or lower premiums or both. Company studies have shown that the largest policy holders are far more likely to borrow on their policies to take advantage of the favorable interest rate differential. Thus, the non-borrowing policyholder has been forced to subsidize the more sophisticated policyholder who borrows on his policy. This forced subsidization is undesirable and should not be permitted to continue in future issues of policies.

New legislation is required to permit companies in future issues of policies to attempt to prevent this serious and periodic drain on cash flow and particularly to balance equities between policyholders who borrow and those who do not.

This bill is intended to be an all inclusive law. It would apply to any form of policy containing a loan provision, such as certificates issued by fraternal benefit societies and certain annuity contracts. It has been approved by the National Association of Insurance Commissioners and 19 states enacted it in 1981. ^{1/} In 1982 at least 13 more states enacted it.

The bill is also supported by the National Association of Life Underwriters (agents and brokers of life insurance), the Alaska State Association of Life Underwriters, the American Council of Life Insurance, and the Director of Insurance.

^{1/} Alabama, Arkansas, California, Connecticut, Florida, Illinois, Indiana, Maine, Massachusetts, Nebraska, Nevada, North Carolina, Ohio, Oregon, Texas, Utah, Virginia, Washington and Wisconsin.

ANNOTATIONS TO POLICY LOAN INTEREST RATE BILL

A. General Discussion

The annotations elaborate on various aspects of the proposed language of the Bill.

The importance of substantial uniformity in enacting the Bill bears special emphasis. It cannot be too strongly urged that any material variation from the language of the Bill, particularly with respect to the index chosen, be carefully considered as to its impact on insurers issuing policies in more than one jurisdiction.

The Bill is intended to be an all inclusive law as to policy loan interest rates in order to achieve uniformity among the states. While some states have statutory specified maximum rates, other states are silent as to the maximum rate but may have usury laws applicable to policy loans. It is anticipated that the entire Bill will be enacted in each state and will replace any statutory language that currently applies to interest rates on policy loans.

B. Specific Discussion

NOTE → The following sections key to the numbers set forth in the copy of the Bill preceding these annotations:

1. The Bill applies only to new policies issued after it is enacted. Thus, it will be some time before policies with indexed maximum interest rates on policy loans will be a substantial portion of any company's business and

have impact on the cash flow problems experienced periodically by reason of unusual policy loan activity. Section (b)(11) of AS 21.45.080, however, will permit the insurer and a holder of an outstanding policy to agree in writing to amend the policy so as to permit the application of provisions in accordance with the Bill.

2. An insurer would be required to include in a policy either an 8% maximum rate provision or an adjustable rate provision with a maximum based on an index. However, nothing in this Bill is intended to prevent an insurer from issuing all policies with an 8% maximum rate provision, all policies with an indexed maximum rate provision or some policies with one and some policies with the other.

3. A two-month period has been established between the time that is used as the monthly base for establishing the indexed rate and the time the adjustable indexed rate is determined and becomes effective. This two-month period is intended to give the insurer the necessary time in which to determine the actual rate to be charged at or below the maximum indexed rate as well as the time to notify policyholders with existing loans of any change in the rate reasonably in advance as required by subsection (c). Thus, for example, the monthly average for October is published by Moody's during the early part of November. An insurer during the remainder of November could determine the rate

that will be charged as of January 1 and take the administrative steps necessary to notify policyholders of any increase in the rate. Notices could be mailed on December 1 along with the premium notice or the policy loan or dividend statement. The rate would then become effective on January 1 as to all outstanding and new loans on or after that date.

4. This subsection provides for a floor under the indexed maximum rate approach, that is, a minimum on the maximum rate. Thus, whenever the index falls below the specified rate, the floor would apply. A minimum was considered necessary to ensure that the maximum policy loan interest rate would never be lower than the interest rate used to compute the policy's nonforfeiture values. In effect, the life insurer should, as a minimum, be able to charge an interest rate that is equivalent to the rate of interest earned by the policyholder on his policy's cash surrender values. This protects the insurer's solvency. An additional 1% has been added to the rate used to compute the nonforfeiture value in order to cover administrative expenses.

5. A policy issued with the indexed maximum rate provision must state how often the interest rate on policy loans may be changed by the company. That is, it must state whether the rate is to be determined quarterly, semiannually or annually.

6. The rate of interest on policy loans under the indexed maximum rate provision may be determined as often as every three months but must be determined by the insurer at least once a year. This permits flexibility so that each life insurer may choose a frequency of change compatible with the company's manner of doing business. The frequency with which a company intends to determine the interest rate is required to be included in the policy.

For example, if a company chose to determine interest rates once a year, it could do so by calendar or fiscal years or by policy anniversary dates. If a company chose to determine interest rates on a calendar year basis, the new rate, based on the average for October, would apply to loans outstanding or taken out on or after January 1 and would be in effect for the entire year. If policy anniversary dates were chosen, the company could establish a new rate every month for policies with anniversaries in that month and the new rate would continue for such policies until the next anniversary date. Thus, for such a company there could be twelve different rates set by reference to the indexed maximum but only one rate would apply to a particular policy from one anniversary to the next anniversary.

If a company chose to determine interest rates quarterly, it could do so on a calendar basis or by policy

anniversary dates. Thus, for example, a company could increase or decrease the interest rate as of January 1, April 1, July 1, and October 1 or at three month intervals during a policy year. The increase or decrease would be based on the index for the month ending two months would be October, January, April, and July, respectively. Rate changes would apply to all outstanding loans and new loans made after the effective date of the change but prior to the effective date of the next change.

7. Companies may increase their interest rate if the Moody's index is $1/2$ of 1% or more above the rate actually being charged. Of course, a company is not required to increase the rate and may decide to keep the rate being charged well below the maximum permissible rate. This provision will prevent companies from changing the interest rate for insignificant amounts.

8. Companies are required to decrease the interest rate at the same frequency interval as they can increase the rate under the provisions of the policy whenever the indexed maximum rate is $1/2$ of 1% or more below the rate actually being charged at that time. Thus, this subsection requires timely decreases in the rate as the index drops but is tempered by the $1/2$ of 1% factor in order to avoid reducing the rate for an insignificant amount.

9. Provisions for notice have been established in order to protect the policyholder. Notice of the currently effective interest rate, whether the 8% maximum or indexed maximum is used, must be given at the time a cash loan is made. Advance notice of any increase in the policy loan interest rate must also be given to policyholders with outstanding loans affected by the increase. No advance notice is required of a decrease in the rate. Since it is not possible to provide advance notice with respect to automatic premium loans, notice should be given as soon as is reasonably practical after the rate is increased. Finally, all notices sent to policyholders must state the type of rate being used, that is, a maximum of 8% or the indexed maximum, and the frequency with which the company may change the variable rate.

10. Since, in many instances, it is impossible to tell in advance the amount of interest to be paid on a loan because of the flexible nature of the interest rate, there is the possibility, in situations where a maximum loan is taken, that a policy might lapse because of an increase in the interest rates. In order to avoid this possibility, the section now provides that a policy will not lapse during the policy year solely as a result of an increase in the interest rate during that policy year. The insurer must maintain coverage during that policy year until the time the

coverage would have terminated had the interest rate not been increased during that policy year. In other words, under these circumstances, the insurer must maintain coverage until the earlier of (1) the end of the policy year or (2) the time coverage would have terminated had the interest rate not been increased during the policy year. This provision along with the advance notice requirement gives the policyholder time to make sufficient payments to prevent termination of coverage.

11. The interest rate permitted on the reinstatement of policy loans for the period during and after the lapse of the policy shall be the same interest rate applicable to policy loans. This avoids the administrative complications that would ensue if a different rate were applicable to reinstatements of policy loans. However, interest on past due premiums would not be affected.

12. Since the Bill is intended as an all inclusive law as to policy loan interest rates, its provisions would be applicable to certificates issued by fraternal benefit societies. In almost all states they are governed by a separate code. The commercial insurance laws do not apply unless fraternal benefit societies are specifically mentioned. The provisions of the Bill are also applicable to annuity contracts when loans are provided for by such contracts.

13. Automatic premium loans are to be treated in the same manner as cash loans on a policy and would be subject to the same interest rate.

14. The Moody's Corporate Bond Yield Average - Monthly average Corporates was chosen as the index because it generally corresponds to the rates available to insurers on new long-term investments and consequently, its use promotes equity between policyholders who do borrow and those who do not. It is generally a smooth and stable long-term rate not subject to the volatile highs and lows from month to month of the various short-term rates. Nevertheless, it is responsive to the changing interest rates in the economy. Another factor in choosing this particular index is that it is the index adopted by the NAIC for its Model Standard Valuation and Nonforfeiture laws. Moreover, it is widely recognized and readily available. The monthly average is published by Moody's Investors Service, Inc. within a few days of the close of the calendar month. Thus, a policyholder or regulator could readily determine the maximum policy loan interest rates at any given moment.

15. Although Moody's Investors Service, Inc. has published the Corporate Bond Yield Average - Monthly Average Corporates for many years, this provision permits a similar index to be substituted in the event that Moody's or any successor thereto no longer publishes this particular index.

A substitute must be promulgated by the Director of Insurance in a regulation which would promote greater uniformity than a state by state determination and would also have a more permanent effect.

16. This section makes it clear that policies in existence prior to the effective date of the Bill could be amended, with the written agreement of the policyholder, to include the provision of the Bill.

17. The only change made in this section is a reference to the provisions of the loan interest provisions for computation of the amount to be paid on reinstatement.

POLICY LOAN BILL ENACTMENTS

(As of 5/21/82)

Alabama	North Carolina
Arizona	North Dakota
Arkansas	Ohio
California	Oklahoma
Colorado	Oregon
Connecticut	Pennsylvania
Florida	Rhode Island
Idaho	South Dakota
Illinois	Tennessee
Indiana	Texas
Kansas	Utah
Maine	Vermont
Massachusetts	Virginia
Nebraska	Washington
Nevada	Wisconsin

5/24/82

32 ENACTMENTS

3 Pending Governmental Actions

AMENDED TITLE: CSSB 841(L&C)
AN ACT RELATING TO INSURANCE POLICY PROVISIONS ON POLICY
LOANS AND REINSTATEMENT OF POLICIES;
AND PROVIDING FOR AN EFFECTIVE DATE

PRIME SPONSOR: SENATE LABOR&COMM COMMITTEE.

CO-SPONSORS:

CURRENT STATUS: 5/26/82 IN (H) RULES

SB 841 SENATE ACTION

11:02 5/27/82 PAGE 2 OF 3

DATE SEQ PAGE

LEGISLATIVE ACTION

03/08/82 01 0430 FIRST READING -- COMMITTEE REPORTS
04/08/82 02 0838 L&C -- CS03, NR02
04/14/82 03 0914 MOVED FROM JUD TO RLS BY UNAN CONSENT
04/20/82 04 0965 RLS -- OTHER04
TAKEN UP IMMEDIATELY
04/20/82 05 0971 SECOND READING
04/20/82 06 0971 L&C CS ADOPTED BY UNAN CONSENT
04/20/82 07 0971 ADVANCED TO 3RD READING BY UNAN CONSENT
04/20/82 08 0971 THIRD READING
04/20/82 09 0971 PASSED BY DIV 19-01-00
04/20/82 10 0972 EFFECTIVE DATE VOTE SAME AS PASSAGE

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SB 841 HOUSE ACTION

11:02 5/27/82 PAGE 3 OF 3

DATE SEQ PAGE

LEGISLATIVE ACTION

04/20/82 11 1439 FIRST READING -- COMMITTEE REPORTS
04/22/82 12 1498 L&C -- DP01, NR02
05/26/82 13 2058 JUD -- DP01, NR03
05/26/82 14 2058 F/NOTE EQUALS ZERO
RULES
RULES

**** ** **

*** ** *

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CSSB 841 (L&C)

Title An act relating to insurance policy provisions or policy loans &

Requested by LEDOI and Commerce Committee Date 4/0/82

reinstatement of policies; & providing for an effective date.

II. FISCAL DETAIL

Agency Affected Division of Insurance

Program Category Affected Public Protection

BRU, Program, Or Subprogram(s) Affected Division of Insurance

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	0					
200 TRAVEL	0					
300 CONTRACTUAL	0					
400 COMMODITIES	0					
500 EQUIPMENT	0					
600 LAND & STRUCTURES	0					
700 GRANTS, CLAIMS, ETC.	0					
TOTAL	0					

FUNDING (Thousands of Dollars)

GENERAL FUND	0					
FEDERAL FUNDS	0					
OTHER (Specify Source)	0					

POSITIONS

FULL TIME	0					
PART TIME	0					
TEMPORARY	0					

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

IV. DATE May 24, 1982

PREPARED BY Kenneth C. Moore, Div. of Insurance
AGENCY Commerce & Economic Development

Original: Legislative Finance

PHONE 400-2010

cc: Budget and Management

Prime Sponsor (First Legislator Named)

88-001 (Rev. 12/81)

Life Insurance
Policy Loans
(interest rate
& reinstatement)

SENATE BILL NO. 841 by the Labor and Commerce Committee by Request. Permits a maximum interest rate of eight percent on life insurance policy loans issued after June 30, 1982. Would permit an adjustable maximum interest rate (may not exceed the higher of the published monthly average for the calendar month ending two months before the date on which the rate is determined, or the rate used to compute cash surrender values under the policy during the applicable period plus one percentage point).

When using the sliding rate the policy is to contain a provision that states times for adjustment of interest (at least once a year, but not more than once every three months). The rate of interest may be increased if the published monthly average increases by one-half percent or more and it must be reduced if the published monthly average drops by one-half percent or more. The insurer is to notify the policy-holder of the initial rate of interest on loans at the time the loan is made; notify the policyholder who obtains a premium loan of the initial rate of interest on the loan as soon as it is reasonably possible to do so after making the loan (notice does not have to be given when a second or subsequent premium loan is added); send reasonable advance notice of any increase in the rate to a policyholder who has a policy loan; and include any other relevant information on adjustment of interest rates. A policy may not be terminated in a policy year because the interest rate has changed during that year.

Amends provisions relating to reinstatement of the policy to reflect the changes in interest rates outlined above. Provides Act takes effect July 1, 1982.

Introduced March 8 and referred to Labor & Commerce, then to Judiciary.

Life Insurance
Policy Loans
(interest
rate & rein-
statement)

SENATE BILL NO. 841, (see page 401). Reported back to the Senate April 8 by Labor and Commerce with a majority recommending it be replaced with a substitute and that it do pass. The report was signed by Senator Mulcahy, Chairman and concurred in by Senators Fahrenkamp and Ziegler. Senators Anderson and Rodey had no recommendation. To Judiciary.

The Labor & Commerce substitute adds language providing the required interest rates apply only to policies issued before June 30, 1982 (was July 1, 1982). Provides a policy issued on or after July 1, 1982 shall have a provision specifying an interest rate on a policy loan not to exceed eight percent a year, or a provision permitting an adjustable maximum interest rate (the original bill provided a policy issued after June 30, 1982 shall have a provision permitting a maximum interest rate on a policy loan of eight percent a year).

Provides the adjustable maximum rate may not exceed the rate used to compute cash surrender values under the policy during the applicable period plus one-twelfth of a percentage point multiplied by the number of months in the applicable period (was one percentage point). Adds language stating if the interest rate changes, the insurer shall maintain coverage during the policy year until the date on which the policy would have terminated if the interest rate had not changed.

Life Insurance SENATE BILL NO. 841 (see pages 401;628). On April 14 the
Policy Loans Judiciary referral was waived. To Rules.
(int. rate &
reinstatement)

Life Insurance COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 841 (L&C), (see
Policy Loans pages 401;628;687). On April 20 the Labor & Commerce substi-
(int. rates & tute was adopted (see page 628) and the bill passed the Senate,
reinstatmt.) 19-1. Nay: Ray. The effective date clause was adopted.

Life Insurance COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 841 (L&C) (see pp.
Policy Loans 401;628;687;751). Received in the House on April 20 and
(int. rate & referred to Labor & Commerce and Judiciary.
reinstatement)

Life Ins. COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 841 (L&C), (see pp.
Policy Loans 401;628;687). Reported back to the House on April 22 by
(int. rate & Labor & Commerce with the committee recommending as follows:
reinstatement) Martin (Chmn.) and Bylsma signed no recommendation; Randolph
signed do pass. To Judiciary.

Cal Calvin

SB 841

Variable interest rate <sup>Many Amm
co. ch, log. Helsus
inter.</sup>

small, vocal core against it,
but state organization is in
favor of it. life insurance
industry

nat'l. industry supporting
it - passed in 38 states

need it w/ these high interest
rates - let it vary w/ the
economy.