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Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 9811

SB 841:

PROBLEM: Fixed interest rate ceilings (8%) on life insurance policy loans;

- 1) Rate of interest is lower than the cost of the loan;
- 2) Reduces funds available for investment (restricts investment capital)
- 3) Reduces funds available for distribution (dividends)
- 4) Creates a subsidy for policy holders using the policy loan feature at the expense of policy holders who do not have policy loans;
- 5) Impacts the net cost of insurance
- 6) Has an impact on insurer liquidity, and therefore effects the flexibility of their investment portfolio;

PROPOSED SOLUTIONS: Remove the fixed rate of interest cap on life insurance policy loans;

- 1) Provides the option of issuing a policy loan at a maximum rate of interest (8%), and/or offering an adjustable rate of interest tied in to the changes in the Moody Index (Corporate Bond Yield Index).
- 2) Rates can be adjusted by changes of $\frac{1}{2}$ percentage point of the Moody Index;
- 3) Rate adjustments may be determined quarterly, semi annually, or at least annually, and the frequency with which the company intends to determine interest rate adjustments must be contained in the policy.
- 4) Insurance companies are required to decrease rates at the same interval chosen for their adjustments, and the interval must be contained in each policy.
- 5) Provisions in the bill prohibit unintended lapses of policy coverage because of interest rate changes.

Bill has the support of: National Association of Life Underwriters
Alaska State Association of Life Underwriters
American Council of Life Underwriters
Division of Insurance

Has been approved by the National Association of Insurance Commissioners, and has been enacted in 19 states thus far.

tion. If the company fails to meet the requirements contained in this subsection, the director may suspend the certificate of authority of the company until the requirements are met or may prohibit the further issuance of variable contracts.

(k) The director has sole authority to regulate the issuance and sale of variable contracts, to examine and license agents to sell variable contracts, and to issue whatever regulations he may consider appropriate to carry out the purposes and provisions of this section.

(l) Except for AS 21.45.030, 21.45.080, 21.45.110, 21.45.180, 21.45.230, 21.45.240, 21.45.290, 21.45.300, 21.48.110, and except as otherwise provided in this section, the provisions of this title apply to separate accounts and contracts relating to them. An individual variable life insurance contract delivered or issued for delivery in the state must contain grace reinstatement and nonforfeiture provisions appropriate to that contract. An individual variable annuity contract delivered or issued for delivery in the state must contain grace and reinstatement provisions appropriate for that contract. A group variable life insurance contract delivered or issued for delivery in the state must contain a grace provision appropriate for that contract. The reserve liability for variable contracts shall be established in accordance with actuarial procedures, acceptable to the director, that recognize the variable nature of the benefits provided and any mortality guarantees. (§ 1 ch 180 SLA 1968; am § 1 ch 69 SLA 1980)

Effect of amendments. — The 1980 amendment rewrote the section.

Chapter 45. Life Insurance and Annuities.

<p>Section 80. Policy loan 300. Standard nonforfeiture law — Life insurance</p>	<p>Section 305. Standard nonforfeiture law for individual deferred annuities</p>
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Sec. 21.45.080. Policy loan. (a) There shall be a provision that after three full years' premiums have been paid and after the policy has a cash surrender value and while no premium is in default beyond the grace period for payment, the insurer will advance, on proper assignment or pledge of the policy and on the sole security of the policy, at a specified rate of interest not exceeding eight per cent a year, an amount equal to or, at the option of the party entitled to it, less than the loan value of the policy. The director may authorize rates of interest in excess of six per cent only on a finding that the holders of policies will benefit from the increased earnings of the insurer resulting from the higher rates, through the use of higher dividends or lower premiums, or both. The loan value of the policy shall be at least equal to the cash surrender value at the end of the then current policy year, except that the insurer may deduct, either from the loan value or from

the procedure in determining accrued policy year. This is not paid and shall be indebted exceeds termination right to premium application automatic.

(b) The benefits of industrial SLA 1980

Effect of amendments preceding subsection in that subsection following

Sec. 21.45.080 (a) This

(b) In section 21.45.080 except a delivery corresponds at least as

(1) the premiums based upon a premium related in be here

(2) the date of for at least full year lieu of amount

the proceeds of the loan, an existing indebtedness not already deducted in determining the cash surrender value including interest then accrued but not due, the unpaid balance of the premium for the current policy year, and interest on the loan to the end of the current policy year. The policy may also provide that if interest on an indebtedness is not paid when due it shall then be added to the existing indebtedness and shall bear interest at the same rate, and that if and when the total indebtedness on the policy, including interest due or accrued, equals or exceeds the amount of the loan value of the policy, the policy shall terminate and become void. The policy shall reserve to the insurer the right to defer the granting of a loan, other than for the payment of a premium to the insurer, for six months after the date of the loan application. The policy, at the insurer's option, may provide for automatic premium loan, subject to an election of the party entitled to elect.

(b) This section does not apply to term policies or to term insurance benefits provided by rider or supplemental policy provisions, or to industrial life insurance policies. (§ 1 ch 120 SLA 1966; am § 1 ch 103 SLA 1980)

Effect of amendments. — The 1980 amendment substituted "eight" for "six" preceding "per cent" in the first sentence of subsection (a), added the second sentence in that subsection, and inserted a comma following "The policy" at the beginning of

the last sentence of subsection (a).

Editor's notes. — Section 8, c. 103, SLA 1980, provides: "This Act shall not impair the terms and conditions of any policy of life insurance issued before the effective date of this Act."

Sec. 21.45.300. Standard nonforfeiture law — Life insurance.
(a) This section shall be known as the standard nonforfeiture law.

(b) In the case of policies issued on or after the operative date of this section as defined in (n) of this section, no policy of life insurance, except as set out in (m) of this section, may be delivered or issued for delivery in this state unless it contains the following provisions, or corresponding provisions which in the opinion of the director are at least as favorable to the defaulting or surrendering policyholder:

(1) that in the event of default in a premium payment, after premiums have been paid for at least one full year, the insurer will grant, upon proper request not later than 60 days after the due date of the premium in default, a paid-up nonforfeiture benefit on a plan stipulated in the policy, effective as of such due date of such value as may be hereinafter specified:

(2) that upon surrender of the policy within 60 days after the due date of a premium payment in default after premiums have been paid for at least three full years in the case of ordinary insurance, and five full years in the case of industrial insurance, the insurer will pay, in lieu of any paid-up nonforfeiture benefit, a cash surrender value of such amount as may be hereinafter specified;

plus, if any, in the manner set out in the policy. (§ 1 ch 120 SLA 1966)

Sec. 21.45.080. Policy loan. (a) There shall be a provision that after three full years' premiums have been paid and after the policy has a cash surrender value and while no premium is in default beyond the grace period for payment, the insurer will advance, on proper assignment or pledge of the policy and on the sole security of the policy, at a specified rate of interest not exceeding six per cent a year, an amount equal to or, at the option of the party entitled to it, less than the loan value of the policy. The loan value of the policy shall be at least equal to the cash surrender value at the end of the then current policy year, except that the insurer may deduct, either from the loan value or from the proceeds of the loan, an existing indebtedness not already deducted in determining the cash surrender value including interest then accrued but not due, the unpaid balance of the premium for the current policy year, and interest on the loan to the end of the current policy year. The policy may also provide that if interest on an indebtedness is not paid when due it shall then be added to the existing indebtedness and shall bear interest at the same rate, and that if and when the total indebtedness on the policy, including interest due or accrued, equals or exceeds the amount of the loan value of the policy, the policy shall terminate and become void. The policy shall reserve to the insurer the right to defer the granting of a loan, other than for the payment of a premium to the insurer, for six months after the date of the loan application. The policy at the insurer's option, may provide for automatic premium loan, subject to an election of the party entitled to elect.

(b) This section does not apply to term policies or to term insurance benefits provided by rider or supplemental policy provisions, or to industrial life insurance policies. (§ 1 ch 120 SLA 1966)

Sec. 21.45.090. Table of values. There shall be a table showing in figures the loan value, if required under § 80 of this chapter, and the cash surrender values and nonforfeiture benefits in accordance with § 300(b) (5) of this chapter, either during the first 20 policy years or during the term of the policy, whichever is shorter. (§ 1 ch 120 SLA 1966)

Sec. 21.45.100. Table of installments. In case the policy provides that the proceeds may be payable in instalments which are determinable at issue of the policy, there shall be a table showing the amounts of the guaranteed installments. (§ 1 ch 120 SLA 1966)

Sec. 21.45.110. Reinstatement. Except as provided in § 230 of this chapter, there shall be a provision that unless (1) the policy

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has been surrendered for its cash surrender value, (2) its cash surrender value has been exhausted, or (3) the paid-up term insurance, if any, has expired, the policy will be reinstated at any time within three years (or two years in the case of industrial life insurance policies) from the date of premium default upon written application, the production of evidence of insurability satisfactory to the insurer, the payment of all premiums in arrears and the payment or reinstatement of another indebtedness to the insurer upon the policy, with interest at a rate not exceeding six per cent a year compounded annually. (§ 1 ch 120 SLA 1966)

Sec. 21.45.120. Payment of premiums. There shall be a provision relative to the payment of premiums. (§ 1 ch 120 SLA 1966)

Sec. 21.45.130. Payment of claims. There shall be a provision that when a policy becomes a claim by the death of the insured, settlement shall be made upon receipt of due proof of death and, at the insurer's option, surrender of the policy and/or proof of the interest of the claimant. If an insurer specifies a particular period before the expiration of which settlement shall be made, the period may not exceed two months from the receipt of the proofs. (§ 1 ch 120 SLA 1966)

Sec. 21.45.140. Beneficiary, industrial policies. An industrial life insurance policy shall have the name of the beneficiary designated on it with a reservation of the right to designate or change the beneficiary after the issuance of the policy. The policy may also provide that no designation or change of beneficiary shall be binding on the insurer until endorsed on the policy by the insurer, and that the insurer may refuse to endorse the name of proposed beneficiary who does not appear to the insurer to have an insurable interest in the life of the insured. The policy may also provide that if the beneficiary designated in the policy does not make a claim under the policy or does not surrender the policy with due proof of death within the period stated in the policy, which may not be less than 30 days after the death of the insured, or if the beneficiary is the estate of the insured, or is a minor, or dies before the insured, or is not legally competent to give a valid release, the insurer may pay the proceeds to the executor or administrator of the insured, or to any relative of the insured by blood or legal adoption or connection by marriage, or to any person appearing to the insurer to be equitably entitled to the proceeds by reason of having been named beneficiary, or by reason of having incurred expense for the maintenance, medical attention or burial of the insured. The policy may also include a similar provision applicable to other payments due under the policy. (§ 1 ch 120 SLA 1966)

Sec. 21.45.150. Title. There shall be a title on the policy, briefly describing it. (§ 1 ch 120 SLA 1966)

cept provisions relative to benefits in the event of disability and provisions which grant insurance specifically against death by accident or accidental means. (§ 1 ch 120 SLA 1966)

Sec. 21.45.200. Entire contract. In an annuity or pure endowment contract, other than a reversionary, survivorship, or group annuity, there shall be a provision that the contract constitutes the entire contract between the parties or, if a copy of the application is endorsed upon or attached to the contract when issued, there shall be a provision that the contract and the application constitute the entire contract between the parties. (§ 1 ch 120 SLA 1966)

Sec. 21.45.210. Misstatement of age or sex—Annuities. In an annuity or pure endowment contract, other than a reversionary, survivorship, or group annuity, there shall be a provision that if the age or sex of the person or persons upon whose life or lives the contract is made, or of any of them, has been misstated, the amount payable or benefits accruing under the contract shall be such as the stipulated payment or payments to the insurer would have purchased according to the correct age or sex and that if the insurer makes or has made an overpayment or overpayments on account of a misstatement, the amount of the overpayment, with interest at the rate to be specified in the contract but not exceeding six per cent a year, may be charged against the current or next succeeding payment or payments to be made by the insurer under the contract. (§ 1 ch 120 SLA 1966)

Sec. 21.45.220. Dividends—Annuities. If an annuity or pure endowment contract, other than a reversionary survivorship, or group annuity, is participating, there shall be a provision that the insurer shall annually ascertain and apportion any divisible surplus accruing on the contract. (§ 1 ch 120 SLA 1966)

Sec. 21.45.230. Reinstatement—Annuities. In an annuity or pure endowment contract, other than a reversionary, survivorship, or group annuity, there shall be a provision that the contract may be reinstated at any time within one year from the default in making stipulated payments to the insurer, unless the cash surrender value had been paid, if all overdue stipulated payments and any indebtedness to the insurer on the contract are paid or reinstated with interest at a rate to be specified in the contract, not exceeding six per cent a year payable annually. Where applicable the insurer may also include a requirement of evidence of insurability satisfactory to the insurer. (§ 1 ch 120 SLA 1966)

Sec. 21.45.240. Standard provisions — Reversionary annuities.
(a) Except as stated herein, no contract for a reversionary annuity may be delivered or issued for delivery in this state unless it contains in substance each of the following provisions:

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB 841

Title An act relating to insurance provisions on policy loans & reinstatement of
Requested by Labor and Commerce Committee Date 3/8/82
of policies.

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

FUI TIME	0					
PAF. TIME	0					
TEMPORARY	0					

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

IV. DATE March 15, 1982

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

Original: Legislative Finance

PHONE 465-2515

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)