Business & Financial Services Committee

HB 2698

Brief Description: Addressing the notice given to owners of life insurance policies about alternative transactions.

Sponsors: Representatives Kelley and Rivers.

Brief Summary of Bill

- Provides that certain disclosure requirements do not apply to term life insurance policies, except in specified circumstances.

Hearing Date: 1/27/12

Staff: Jon Hedegard (786-7127).

Background:

The Insurance Commissioner (Commissioner) regulates insurance transactions in Washington. This includes life insurance policies that are issued or delivered in Washington. Insurance rates and insurance forms are filed with the Commissioner. The Commissioner ensures that those rates and forms comply with the Insurance Code.

Term Life Insurance.
Term insurance provides coverage for a specific period of time, usually a year or a limited number of years. Premiums generally rise over time because the risk of dying increases with age. Term insurance does not have a cash value. Once the term ends, the policy no longer provides coverage.

Cash Value Life Insurance.
Whole life, universal life, and variable life are all types of cash value life insurance. Premiums may be fixed or may vary. Cash value life insurance coverage often requires higher premiums at the beginning of the policy. Generally, part of the premium is invested and the policy gains value

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over time. The policyholder may be able to use the increased value to pay for premiums or borrow against the value of the policy.

Accelerated Death Benefits.
Insurers may have a provision in the policy that allows an insured to "accelerate" the death benefits if the insured person is terminally ill. If the insured meets certain criteria, the insurer will pay a specified percentage of the death benefit. This may allow the terminally ill insured to receive a greater amount of money than the cash value.

Life Settlements.
A third-party may purchase the right to receive the death benefits of policyholders. This is not only true of ill policyholders but also of healthy policyholders. A bill establishing a regulatory framework for life settlements was enacted in 2009.

Disclosure by Life Insurers.
In addition to any other disclosure requirements required by law, the Commissioner must approve a document calculated to appraise the consumer of his or her rights as an owner of a life insurance policy. The document must be made available to all insurance companies and life insurance producers and written in lay terms. The document must:
- advise the consumer that life insurance is a critical part of a broader financial plan, and that the consumer is encouraged, and has a right, to seek additional financial advice and opinions;
- advise the consumer that possible alternatives to lapse exist;
- provide the consumer with definitions of common industry terms; and
- contain a specific statement.

The document approved by the Commissioner is part of the notice by insurers to policyholders in specific circumstances. A life insurer must notify a policyholder that is 60 years old or older, or is known to be terminally ill, that there may be alternative transactions available:
- if the owner makes a request to surrender the policy;
- if the owner requests an accelerated life insurance benefit;
- if the insurer is sending out a lapse notice; and
- at other times required by rule of the Commissioner.

Summary of Bill:

The statutory notice requirements do not apply to term life insurance policies, except when in the process of converting into a policy other than a term life policy.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.