

HOUSE BILL REPORT

HB 2134

As Reported by House Committee On: Business & Financial Services

Title: An act relating to notice given to owners of life insurance policies about alternative transactions.

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

Sponsors: Representatives Stanford and Parker.

Brief History:

Committee Activity:

Business & Financial Services: 1/15/14, 1/21/14 [DP].

Brief Summary of Bill

- Exempts term life insurance policies from the requirement that a policy owner must be notified of alternative options when the owner has made certain requests regarding the policy or has received notices that the policy may lapse.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: Do pass. Signed by 13 members: Representatives Kirby, Chair; Parker, Ranking Minority Member; Vick, Assistant Ranking Minority Member; Blake, Fagan, Hawkins, Hudgins, G. Hunt, Hurst, Kochmar, MacEwen, Santos and Stanford.

Minority Report: Do not pass. Signed by 1 member: Representative Ryu, Vice Chair.

Staff: Linda Merelle (786-7092).

Background:

Insurers must meet minimum standards regarding disclosures regarding life insurance policies. For individual life insurance policies, an insurer must notify the owner of the policy of alternative transactions available to that owner when the insured under the policy is age 60

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years or older or if the insured is known to be terminally ill or chronically ill, when the following circumstances occur:

- when a life insurance company receives a request from the owner to surrender the individual policy, in whole or in part;
- when a life insurance company receives a request from the owner to receive an accelerated death benefit under an individual policy;
- when a life insurance company sends all notices of lapse to any owner of an individual policy; or
- at any other time that the Insurance Commissioner may require by rule.

The notice must advise the owner that the life insurance is a critical part of a broader financial plan and that the consumer has a right to and is encouraged to seek additional financial advice or opinions. The notice must inform the owner that the owner has alternatives other than allowing the policy to lapse and must provide definitions of common industry terms, including "accelerated death benefit," "cash surrender," "gift," "life settlement," "policy loan," and "third-party loan."

Whole Life Insurance.

"Whole life insurance" covers an insured for life, during which the insured pays fixed premiums, accumulates savings from an invested portion of the premiums, and receives a guaranteed benefit upon death.

Term Life Insurance.

"Term life insurance" provides a death benefit only if the insured dies during the period specified in the policy. If the insured survives beyond the specified period, the insurance policy and coverage cease without value.

Summary of Bill:

The requirement that an insurer notify the owner of a life insurance policy regarding alternatives other than allowing the policy to lapse does not apply to term life insurance policies.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill is not new to this committee. In 2012 identical language was offered. It passed the House of Representatives but did not pass the Legislature. The notice

requirement for life insurance policies went into effect in 2009. Term life is usually paid on a monthly basis and is usually on a relatively short-term basis during a person's working years. The notice requirement for term life insurance seems to be overkill. The confusion outweighs the meaningfulness of that notice. There is no cash value or asset value to the policy. Under the current notice requirements, policy owners are getting notices even when their checks are late. Senior citizens are confused by this. The downsides of exempting term life from the notice requirements are very small. It will help save senior citizens angst and confusion.

(With concerns) The American Association of Retired Persons was one of the first in the nation to let people know that they have options regarding life insurance policies. Life insurance is an asset, and it is good consumer policy to remind consumers of the options that they have. The notices do not cause problems for senior citizens, and they should not be eliminated altogether. Because there is no problem, there is no need for a solution. Instead of eliminating the notices altogether, the circumstances under which the notices are sent could be more refined.

(Opposed) None.

Persons Testifying: (In support) Representative Stanford, prime sponsor; Mel Sorrenson, American Council of Life Insurers, National Association of Insurance and Financial Advisors, Allstate Insurance, and American Insurance Company; and John Mangan, American Council of Life Insurers.

(With concerns) Mary Clogston, American Association of Retired Persons.

Persons Signed In To Testify But Not Testifying: None.