

STORAGE NAME: h3891.fs

DATE: March 24, 1998

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
FINANCIAL SERVICES
BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: HB 3891

RELATING TO: Insurance (industrial life insurance)

SPONSOR(S): Rep. Lawson

COMPANION BILL(S): SB 1818 (s)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) FINANCIAL SERVICES
 - (2)
 - (3)
 - (4)
 - (5)
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I. SUMMARY:

Industrial life insurance is a form of life insurance for which premiums are payable on a monthly or more frequent basis and are collected directly by an insurance agent. The face value of a typical industrial life policy issued today is \$1,000. In recent years, relatively few industrial life policies have been issued in Florida, although nearly 1.3 million industrial life policies are currently in force in Florida.

Under this bill, new industrial life insurance policies would not be able to be written in Florida after October 1, 1998. Industrial life policies that are in force on October 1 would continue to be subject to applicable provisions of the Insurance Code and rules of the Department of Insurance.

Each industrial life insurer would be required annually to provide disclosures to the policyholder or to the person who pays premiums on an industrial life policy. The insurer would be required to disclose the total amount of premiums paid, the cash value of the policy, and the total amount of death benefits payable under the policy.

The bill has no fiscal impact.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Industrial life insurance is a form of life insurance for which premiums are payable on a monthly or more frequent basis and are collected directly by an insurance agent.¹ A typical industrial life policy issued today, according to the Department of Insurance, has a face value of \$1,000 and premiums of \$2.60 per month.

According to the Department of Insurance, as of December 31, 1996, there were 1,268,722 industrial life policies in force in Florida, with an average face value of \$750. The number of new industrial life policies issued in Florida has declined dramatically in recent years. Fewer than 1,000 industrial life policies were issued in Florida in 1994, 1995, and 1996, combined. In 1996, only three companies issued industrial life policies in Florida.² The small number of new industrial life policies issued in Florida in recent years could indicate that other low-cost, low-value life insurance options are widely available.

Industrial life policies, according to the Insurance Consumer Advocate, provide inferior economic value as compared with ordinary life policies and do not provide coverage adequate to cover today's typical funeral expenses.³ The Insurance Consumer Advocate has cited a number of economic disadvantages of industrial life policies, including:

An industrial life policy is never "paid up," and benefits do not increase; the result is that premiums must be paid no matter how long the policyholder lives.

The policyholder cannot borrow against the cash value of the industrial life policy.

Insurers are not required to accept a change in beneficiaries of an industrial life policy, and the policy may not be assigned to another person.

The states of New York (1980) and Arkansas (1988) have prohibited the sale of industrial life insurance policies.

B. EFFECT OF PROPOSED CHANGES:

New industrial life insurance policies would not be able to be written in Florida after October 1, 1998. Industrial life policies that are in force on October 1 would continue to be subject to applicable provisions of the Insurance Code and rules of the Department of Insurance.

¹ See s. 627.502, F.S., for the statutory definition of "industrial life insurance."

² Conger Life Ins. Co. (which went into receivership on November 18, 1997), Metropolitan Life Ins. Co., and Western & Southern Life Ins. Co.

³ According to the Florida Board of Funeral Directors and Embalmers, the national average cost of a funeral in 1997 was \$4,782.

Each industrial life insurer would be required annually to provide disclosures to the policyholder or to the person who pays premiums on an industrial life policy. The insurer would be required to disclose the total amount of premiums paid, the cash value of the policy, and the total amount of death benefits payable under the policy.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

Yes. The bill requires industrial life insurers to provide certain disclosures annually to all policyholders or premium payors.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

- a. Does the bill increase anyone's taxes?

No.

- b. Does the bill require or authorize an increase in any fees?

No.

- c. Does the bill reduce total taxes, both rates and revenues?

No.

- d. Does the bill reduce total fees, both rates and revenues?

No.

- e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

N/A

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

N/A

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

No. Individuals would not be able to purchase industrial life insurance policies after October 1, 1998.

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

Yes. The bill would prohibit the issuance of new industrial life insurance policies.

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Section 627.5015, F.S. (created).

E. SECTION-BY-SECTION RESEARCH:

N/A

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

The bill would create compliance costs for industrial life insurers, which would be required to provide certain annual disclosures to policyholders or premium payors.

2. Direct Private Sector Benefits:

In view of the economic disadvantages cited by the Insurance Consumer Advocate (see "Present Situation," above), consumers who are interested in low-value, low-cost life insurance options could be more likely to find an appropriate life insurance product if the industrial life policy were not an available option.

3. Effects on Competition, Private Enterprise and Employment Markets:

N/A

D. FISCAL COMMENTS:

N/A

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

N/A

B. REDUCTION OF REVENUE RAISING AUTHORITY:

N/A

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

N/A

V. COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

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VII. SIGNATURES:

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