

STORAGE NAME: h0841.in

DATE: April 8, 1999

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS**

BILL #: HB 841

RELATING TO: Insurance (industrial life insurance)

SPONSOR(S): Representative Lawson

COMPANION BILL(S): SB 1170 (i)

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

- (1) INSURANCE
 - (2) BUSINESS REGULATION & CONSUMER AFFAIRS
 - (3)
 - (4)
 - (5)
-

I. SUMMARY:

Industrial life insurance is defined in s. 627.502, F.S., as a form of life insurance under which premiums are paid monthly or more often. Industrial life insurance policies are usually collected directly by an insurance agent. Industrial life insurance policies are subject to the requirements of Part IV, Chapter 627, Florida Statutes (ss. 627.501 - 627.522).

Under the provisions of HB 841, new industrial life insurance policies would not be able to be written in Florida after October 1, 1999. 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.

An industrial life insurance policy would no longer be exempt from the secondary notice provision. This provision provides that a life insurance policy that issued to a person 64 years of age or older on or after October 1, 1997, that has been in effect for at least one year could not be lapsed for nonpayment of premium unless the insurer has noticed the policyholder or a specified secondary addressee, if one has been named by the policyholder, before the expiration of a grace period.

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II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Industrial life insurance is defined in s. 627.502, F.S., as a form of life insurance under which premiums are paid monthly or more often. Industrial life insurance policies are usually collected directly by an insurance agent. Industrial life insurance policies are subject to the requirements of Part IV, Chapter 627, Florida Statutes (ss. 627.501 - 627.522). Under these sections, an insured is allowed a 30-day grace period for the payment of premiums and may name a beneficiary. Insurers that issue this type of insurance must report to the Department of Insurance (DOI) all annual statement data regarding industrial life insurance. Under s. 627.522(2), F.S., the price of an industrial life insurance policy must be set forth in a "clear, conspicuous, and understandable manner."

There are differences between term insurance, which is life insurance purchased for a specific period; whole life insurance, which is coverage effective for life; and industrial life insurance. Some of these differences include:

- ◆ Under s. 626.590, F.S., insurance agents who sell industrial life policies may work for up to 6 months without meeting full licensure requirements. Whole life and term insurance agents must meet full licensure requirements.
- ◆ Unlike whole life or term insurance, an industrial life policyholder may not borrow against the cash value of the policy. Under s. 627.458, F.S., whole life or term insurance policyholders may do so.
- ◆ Section 625.121, F.S., requires that the price of industrial life insurance policies be based on the 1961 Mortality Table, while whole life and term insurance are priced according to the 1980 Mortality Table. Using an older mortality table may result in higher rates because life expectancies were not as long. (A mortality table is a statistical table used by the industry to identify death probabilities by age.)

According to the DOI, a typical industrial life insurance policy today has a face value of \$1,000 and premiums of \$2.60 per month. According to the Insurance Consumer Advocate within the DOI, there have been no industrial life insurance policies sold in Florida in the last 5 years, except for those sold by Conger Life Insurance Company, which went into receivership on November 18, 1997.

The DOI estimates that as of December 31, 1997, there are 1,277,169 industrial life insurance policies in force in Florida. The top three industrial life insurers in terms of market share are American General Life & Accident Insurance Company, Liberty National Life Insurance Company, and Life Insurance Company of Georgia.

Two insurers in the state have discontinued the sale of industrial life insurance policies and have deemed those policies paid in full. Another insurer in the state also stopped selling industrial life insurance policies and considered any policyholder over the age of 85 to be paid in full.

Industrial life policies, according to the Insurance Consumer Advocate, provide inferior economic value as compared to ordinary life policies and do not provide coverage adequate to cover today's typical funeral expenses. According to the National Funeral Director's Association, the national average cost of a funeral for 1997 was \$5,543 for a funeral at a funeral home. This figure includes items such as embalming, visitation, transportation, casket, and vault and is based on the national average price of commonly selected items. This figure does not include cemetery charges, such as cemetery space, opening / closing the grave, or markers.

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, 1999. 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.

An industrial life insurance policy would no longer be exempt from the secondary notice provision. This provision provides that a life insurance policy that was issued to a person 64 years of age or older on or after October 1, 1997, that has been in effect for at least one year can not be lapsed for nonpayment of premium unless the insurer has notified the policyholder or a specified secondary addressee, if one has been named by the policyholder, before the expiration of a grace period.

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?

N/A

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

Yes. Industrial life insurers would be required to provide certain disclosures annually to policyholders or premium payors.

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

N/A

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?

N/A

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

N/A

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

N/A

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

N/A

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

N/A

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. Insurers would not be able to sell, and individuals would not be able to purchase, industrial life insurance policies after October 1, 1999.

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

Yes. Insurers would be prohibited from issuing new industrial life 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:

Creates s. 627.5015, F.S. Amends s. 627.4555, F.S., and s. 627.5045, F.S.

E. SECTION-BY-SECTION ANALYSIS:

Section 1. Creates s. 627.5015, F.S., to prohibit new industrial life insurance policies from being written in the state on or after October 1, 1999. Those policies that are in force as of October 1, 1999, would continue to be subject to all of the applicable provisions of the Insurance Code. Each insurer that has industrial life insurance policies in force would be required to disclose annually to the premium payor or the policyholder the total amount of premiums paid, the cash value, and the amount of death benefits payable under the policy.

Section 2. Amends s. 627.4555, F.S., to remove the exemption of industrial life insurance policies from the secondary notice provision.

Section 3. Amends s. 627.5045, F.S., to remove the exemption of industrial life insurance policies from the secondary notice provision.

Section 4. Provides an effective date of October 1, 1999.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

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:

Policyholders would be provided full disclosure as to the total premiums paid on their policies, the cash value of such policies, and the amount of death benefits.

Policyholders over the age 64 or over would benefit by receiving advance notice from insurers that their policies would be canceled due to nonpayment of premium.

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

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

N/A

V. COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

Prepared by:

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