

STORAGE NAME: h0527a.in

DATE: April 4, 2000

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS**

BILL #: HB 527

RELATING TO: Industrial life insurance policies

SPONSOR(S): Representative Lawson

TIED BILL(S):

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

- (1) INSURANCE YEAS 9 NAYS 4
 - (2) GOVERNMENTAL RULES & REGULATIONS
 - (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, which are usually collected directly by an insurance agent, are paid monthly or more often. These types of life insurance policies are subject to the requirements of Part IV, Chapter 627, Florida Statutes (ss. 627.501 - 627.522).

HB 527 would prohibit insurers from issuing new industrial life insurance policies on or after October 1, 2000. All industrial life insurance policies that are in effect on October 1, 2000 would be subject to the Insurance Code and all rules adopted under the code.

Each insurer that collects premiums in the state for an industrial life insurance policy would be required to make certain disclosures to the policyholder or the person who pays the premiums.

Industrial life insurance policies would no longer be exempt from the secondary notice requirements of s. 627.5045, F.S.

This bill would not have a fiscal impact on state or local government.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|--|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> | N/A <input type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

3. Individual Freedom: Insurers would not be able to sell, and individuals would not be able to purchase, industrial life insurance policies after October 1, 2000.

B. PRESENT SITUATION:

Industrial life insurance is defined in s. 627.502, F.S., as a form of life insurance under which premiums, which usually are collected directly by an insurance agent, are paid monthly or more often. These types of 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.

Industrial life insurance policies are exempt from the secondary notice provisions of s. 627.5045, F.S., which 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.

There are differences between term insurance, which is life insurance purchased for a specific period; whole life insurance, which is based on the assumption that premiums will be paid throughout the lifetime of the insured; and industrial life insurance. Some of these differences include:

- ◆ Under s. 626.790, 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 prior to selling life insurance.
- ◆ Unlike whole life insurance, an industrial life insurance policyholder may not borrow against the cash value of the policy. Under s. 627.458, F.S., whole life insurance policyholders may do so.
- ◆ Some term insurance policies may be renewed or may be converted to whole life insurance.

- ◆ Section 625.121(5)(b), 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 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.

Some insurers no longer offer industrial life insurance, but still collect premiums on those policies that are in force. 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.

According to the DOI, as of December 31, 1998, there are 1,203,575 industrial life insurance policies in force in Florida written by 32 different insurance companies. 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.

According to the Insurance Consumer Advocate, a typical industrial life insurance policy would pay a benefit of approximately \$750, with the average premiums being \$2.60 per month. The average age of an industrial life insurance policy is not reported to the DOI. According to the National Funeral Director's Association, the national average cost of a funeral for 1999 was \$5,778.16 for a funeral held at a funeral home. This figure includes items such as professional services, embalming, visitation, some transportation, vault, and casket, and is based on the national average price of commonly selected items. This figure does not include cemetery charges, such as cemetery space, opening or closing the grave, or makers.

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

C. EFFECT OF PROPOSED CHANGES:

New industrial life insurance policies could not be written in Florida after October 1, 2000. Industrial life policies that are in force on October 1, 2000 would continue to be subject to applicable provisions of the Insurance Code and all rules adopted under the code.

Each insurer that currently collects premiums for an industrial life insurance policy would be required annually to provide disclosures to the policyholder or to the person who pays the premiums. 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. Based on the number of policies currently in force reported by the DOI, insurers would be required annually to notify 1,069,474 policyholders. Some insurers provide monthly billing statements that could include the information that would be required without having to do a separate mailing.

Insurers that do not currently collect premiums for industrial life insurance policies would not be required to supply notices to policyholders.

An industrial life insurance policy would no longer be exempt from the secondary notice provision. The issuing insurer would be required to notify the policyholder and a secondary addressee (if one has been designated by the policyholder) before lapsing an industrial life insurance policy for nonpayment of premium.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 creates s. 627.5015, F.S., which prohibits the sale of industrial life insurance policies in the state on or after October 1, 2000. All industrial life insurance policies that are in effect on October 1, 2000 would be subject to the Insurance Code and all rules adopted under the code. Each insurer that collects premiums in the state for an industrial life insurance policy would be required to make certain disclosures to the policyholder or the person who pays the premiums.

Section 2 amends s. 627.5045, F.S., to remove the exemption of industrial life insurance policies from the secondary notice requirement.

Section 3 provides an effective date of October 1, 2000.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None

2. Expenditures:

None

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Industrial life insurers would be required to provide certain annual disclosures to policyholders or the person who pays the premium. Insurers would be required annually to provide policyholders with 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 receive advance notice from insurers that their policies would be canceled due to nonpayment of premium.

STORAGE NAME: h0527a.in

DATE: April 4, 2000

PAGE 5

D. FISCAL COMMENTS:

None

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

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require the counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority that municipalities or counties have to raise revenue in the aggregate.

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

The bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None

B. RULE-MAKING AUTHORITY:

None

C. OTHER COMMENTS:

None

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On April 3, 2000, the Committee on Insurance adopted one amendment to HB 527. This amendment would remove the secondary notice provision, which would have required insurers to provide notice to policyholders over the age of 64 and a policyholder's designee prior to canceling an industrial life policy for the reason of nonpayment of premium. This provision would have applied to industrial life insurance policies issued after October 1, 2000, and since industrial life insurance policies could not be issued after October 1, 2000, this provision would have not had any effect.

STORAGE NAME: h0527a.in

DATE: April 4, 2000

PAGE 6

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

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