

SENATE BILL REPORT

SB 5976

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, January 23, 2014

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: Senators Fain and Hobbs.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 1/16/14, 1/23/14 [DP, DNP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass.

Signed by Senators Hobbs, Chair; Benton, Ranking Member; Fain, Hatfield and Roach.

Minority Report: Do not pass.

Signed by Senators Mullet, Vice Chair; Nelson.

Staff: Edward Redmond (786-7471)

Background: A life settlement occurs when a policyholder sells their life insurance policy to a third party. Typically, the seller receives more than the policy's cash surrender value but less than its net death benefit. The purchaser may hold the policies until maturity or when the insured person dies and collect the net death benefits. They may also resell the policies or they may sell interests in multiple policies to hedge funds or other investors. A lump-sum payment is received when a person sells their policy. The amount of the lump sum varies depending on a range of factors including the person's age, health, and the terms and conditions of the life insurance policy. The purchaser agrees to pay any additional premiums required to keep the policy in effect and receives the death benefit when the insured person dies.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

In 2009, the Legislature passed SSB 5195, adopting the Life Settlement Model Act (Act). The Act prohibits stranger-originated life insurance and requires life settlement providers and brokers to be licensed before transacting business with a resident of Washington.

The Act also requires notification to holders of life insurance policies under specified circumstances. An insurer must notify a policyholder that is 60 years of age 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; the owner requests an accelerated life insurance benefit; the insurer is sending out a lapse notice; or at other times as required by rule of the Commissioner.

The insurance industry defines term life insurance as life insurance that provides coverage at a fixed rate of payments for a limited period of time. After that period expires, coverage at the previous rate of premiums is no longer guaranteed and the client must either forgo coverage or potentially obtain further coverage with different payments and/or conditions. If the insured dies during the term, the death benefit will be paid to the beneficiary.

Summary of Bill: Term life insurance policies are exempt from the notification requirements under the Act, except when in the process of converting into a policy other than a term life policy.

Term life insurance is defined as life insurance that provides a death benefit only if the insured dies during the period specified in the policy and coverage ceases without value if the insured survives until the end of such period.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: In 2012 the committee heard this identical bill which passed the House unanimously. The committee passed the bill but it did not make it out of Rules due to time limitations and other legislative priorities. The language came out of the anti-fraud notice language of 2009. The problem with that notice is that it only related to the policies that could be sold to investors, such as cash value and universal life policies. Term life, which is paid month to month, is not the same type of product; it is not subject to these investor sales. Thus, it would be misleading to keep telling holders of a term life policy that they have this option to sell their policy. In 2013 the Commissioner did slim down the notice creating a term life only notice. That notice still references two options: (1) to sell the policies to investors instead of allowing it to lapse; and (2) to take out a loan to pay the policy's premium. We believe both are inappropriate options. First, a term life policy has no cash value; it cannot be used for equity or collateral for a loan. Thus, some people think it is inappropriate to encourage customers to use it to get another type of financing. Second, some people do not believe there is a real market to sell polices to investors. There have been efforts recently by investors to come after seniors for these small-dollar term life

policies, but consumer protection groups warn that these are not good economic deals for seniors. Seniors may only get 8–10 percent of the value of the term policy and any cash received will be fully taxable.

OTHER: The American Association of Retired Persons (AARP) has concerns with the bill. If the notice is confusing, we would be willing to work with the companies to make the notice clearer. The notice is outlined in the WAC so there is a rulemaking process that people can engage in to make changes to the notice. AARP feels strongly that senior citizens should be notified about what their options are. Life insurance is property; it can be sold on the market, dropped, etc. The owners of the policy should be allowed to decide whether or not it is appropriate to sell their policy.

Persons Testifying: PRO: Mel Sorensen, American Council of Life Insurer, National Assn. of Insurance and Financial Advisers; John Mangan, American Council of Life Insurers; Michelle Stender, Farmers Insurance Company.

OTHER: Mary Clogston, AARP.