

MAINE STATE LEGISLATURE

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E. L. Walter, Executive Secretary

Maine State Retirement System

Jerome S. Matus, Assistant

Attorney General

Proposed Distribution of Dividends on Supplemental Group Life Insurance.

FACTS:

Dividends on supplemental group life insurance have accumulated to the point where a subcommittee of the Board of Trustees of the Maine Retirement System believes there should be a distribution of the dividends. It has been suggested that at point of retirement any person who had held the supplemental group life insurance for a period of five years prior to the date of retirement would be entitled to perhaps 10% of the amount of the supplemental coverage, without cost to the insured, and the premium for which would be paid out of the dividends or perhaps the dividends would be retained by the Insurance Company so that it could meet the obligation incurred by this extra coverage.

QUESTION:

Would such a suggested distribution be in accord with Maine statutes?

ANSWER:

No.

OPINION:

A dividend on life insurance, whether group life insurance or individual life insurance, is in reality a return of unused premium. Supplemental group life insurance premiums are paid entirely by each insured within the group and no contributions are made by the State of Maine.

The total amount available in dividends to members of the supplemental group is an excess of premium based on premium paid by all members of the supplemental group. The return of the excess premium to each insured, whether by using cash to purchase additional insurance for an insured, or by returning cash to an insured, must be in proportion to the amount of premium paid in by each insured. Each insured is entitled to his pro rata share of the total amount available in dividends. To distribute dividends otherwise, as was suggested to the subcommittee, would result in certain members of the supplemental group subsidizing other members of the supplemental group. There is nothing in Maine statutes giving the trustees of the Maine State Retirement System the authority to bring about this subsidization in respect to certain members of the supplemental group.

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