

# MAINE STATE LEGISLATURE

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SECOND REGULAR SESSION

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ONE HUNDRED AND EIGHTH LEGISLATURE

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**Legislative Document**

**No. 2058**

H. P. 1973

House of Representatives, January 12, 1978

Governor's Bill. The Committee on Business Legislation suggested.

EDWIN H. PERT, Clerk

Presented by Mr. Perkins of Blue Hill.

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STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED  
SEVENTY-EIGHT

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**AN ACT Requiring Net Cost Comparison of Life Insurance Companies.**

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Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 24-A MRSA § 413, sub-§ 4, as enacted by PL 1969, c. 132, § 1, is repealed and the following enacted in its place:

4. A complete copy of its most recent financial statement made within the preceding 12 months in the form customarily used in the United States by like insurers, sworn to by at least 2 executive officers of the insurer or certified by the public insurance supervisory official of the insurer's state of domicile, or state of entry into the United States if an alien insurer. That financial statement for life insurers shall be accompanied by a statistical listing of the Interest Adjusted Surrender Net Cost Indices calculated in the manner specified in section 2541. The superintendent shall not issue a certificate of authority unless the Average Interest Adjusted Surrender Net Cost Index, as defined in section 2541, of the applicant life insurer qualifies in the method set forth in that section.

Sec. 2. 24-A MRSA § 2541 is enacted to read:

§ 2541. Suspension of new business.

Except as provided in this section, the writing of life insurance by any company shall be suspended if it cannot comply with the following.

The annual statement filing of a life insurance company required in section 415, subsection 1, paragraph B, shall be accompanied every 3 years by a statistical listing known as the Interest Adjusted Surrender Net Cost Indices which represents the average yearly costs to an insured if a policy is surrendered, taking into consideration the time value of money. The listing shall be in the form approved by the superintendent.

Each index shall be determined as follows: To obtain each index, first accumulate all premiums from the dates due and 90% of the dividends from the dates paid, if any, to the date of surrender; then from the accumulated premiums subtract the accumulated dividends, if any, and the cash value at time of surrender; then divide this result by a factor which is the value of \$1 per year deposited in advance from the date of issue to the date of surrender. All accumulations shall be at the rate of 5% per year compounded annually.

The superintendent in determining the Average Interest Adjusted Surrender Net Cost, in order to provide equity between insurers, shall base his calculations upon ordinary life insurance policies with level death benefits and level premiums payable to or beyond the insured's age 85 and written for minimum amounts of insurance of less than \$10,000. The indices to be averaged shall be for issuance ages 20, 25, 30, 35, 40, 45 and 50 and for surrender durations after the date of issuance of 5, 10, 15 and 20 years using a \$10,000 policy as a base for calculations. An arithmetic average of the indices at each age shall be made for each duration. The Average Interest Adjusted Surrender Net Cost Index shall be determined by applying the numbers 4, 3, 2 and 1 to the average indices at durations 5, 10, 15 and 20 years respectively and dividing the total by 10. The calculations shall not include premiums for ancillary benefits including, but not limited to, disability waiver of premium, disability income and accidental death benefit.

The superintendent shall review the indices and make a valuation of the Average Interest Surrender Net Cost Index for each insurer. The Average Interest Surrender Net Cost Index for each insurer shall not exceed \$11.78 per \$1,000 of insurance. All classes of industrial insurance, substandard insurance, group conversions and insurance issued to a trust established to provide a proportion of the benefits payable pursuant to a tax qualified pension or profit sharing plan established and funded by a corporation or a labor union need not meet this qualification.

In the event an insurer's Average Interest Adjusted Surrender Net Cost Index as determined in this section does not qualify, the superintendent may, upon written application of the insurer and if he is satisfied that the insurer has taken steps which will enable it to comply with the requirements of this section, suspend that requirement as to the insurer for the current calendar year; but no order of suspension shall be given for any one insurer for more than 2 calendar years in succession. Each insurer shall certify that no changes have been made during the

past 3 years which will affect, in any way, compliance with this section. If an insurer is unable to certify or meet the requirements of this section, the superintendent shall investigate and be satisfied that changes resulting in compliance shall be equitable as to all life insurance plans and for all ages being issued by that insurer in this State before permitting sales of life insurance beyond the 2-year period indicated in this section. The cost of that investigation shall be borne by the insurer.

If a life insurer issues both participating and nonparticipating classes of policies as set forth in section 2536, it may continue to issue the class of policies which complies with this section even if the other class does not comply.

During any period of time that an insurer cannot comply with this section, it shall file, for the protection of all of its policyholders in this State, a bond, in the amount of \$500,000 payable to the Insurance Bureau, guaranteeing that it will continue to service its existing policyholders. If an insurer issues both participating and nonparticipating classes of policies and one class complies with this section, it is exempt from the filing of this bond.

The determination of each insurer's Average Interest Adjusted Surrender Net Cost Index by the superintendent shall be made not later than May 1st of the year of filing and the superintendent shall advise each company as to its qualification not later than June 1st of the same year.

**Sec. 3. Effective date.** This Act shall become effective January 1, 1979.

#### STATEMENT OF FACT

This bill, if enacted, will aid in establishing and maintaining the credibility of life insurance companies in this State in the consumer interest by setting forth restrictions on the issuance of certificates of authority and the writing of new life insurance for those companies whose Average Interest Adjusted Surrender Net Cost Index is 50% more than that of the 5 lowest companies doing business in all states. This index represents the average yearly cost to a consumer if a contract is surrendered.