

MAINE STATE LEGISLATURE

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D. OF R.

L.D. 361

(Filing No. S-81)

STATE OF MAINE
SENATE
110TH LEGISLATURE
FIRST REGULAR SESSION

COMMITTEE AMENDMENT " B " to S.P. 153, L.D. 361, Bill, "AN ACT to Regulate Interest Rates on Life Insurance Policy Loans."

Amend the Bill by striking out everything after the enacting clause and inserting in its place the following:

'Sec. 1. 24-A MRSA §2510, sub-§1, first sentence, as enacted by PL 1969, c. 132, §1, is amended to read:

There shall be a provision that after 3 full years' premiums have been paid and after the policy has a cash surrender value and while no premium is in default beyond the grace period for payment, the insurer will advance, on proper assignment or pledge of the policy and on the sole security thereof, at a ~~specified~~ rate of interest as specified in section 2252 to 2254, an amount equal to or, at the option of the party entitled thereto, less than the loan value of the policy.

Sec. 2. 24-A MRSA §2512, as enacted by PL 1969, c. 132, §1, is amended to read:

§2512. Reinstatement

There shall be a provision that unless:

1. The policy has been surrendered for its cash surrender value ~~or~~;

2. Its cash surrender value has been exhausted; or

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3. The paid-up term insurance, if any, has expired;

the policy will be reinstated at any time within 3 years, or 2 years in the case of industrial life insurance policies, from the date of premium default upon written application therefor, the production of evidence of insurability satisfactory to the insurer, the payment of all premiums in arrears ~~and the payment or reinstatement of any other indebtedness to the insurer upon the policy,~~ all with interest at a rate not exceeding 6% per annum compounded annually and the payment or reinstatement of any other indebtedness to the insurer upon the policy with interest at the policy loan interest rate.

Sec. 3. 24-A MRSA §2523, as enacted by PL 1969, c. 132, §1, is amended to read:

§2523. Reinstatement--annuities

In an annuity or pure endowment contract, other than a reversionary or group annuity, there shall be a provision that the contract may be reinstated at any time within one year from the default in making stipulated payments to the insurer, unless the cash surrender value has been paid, but all overdue stipulated payments ~~and any indebtedness to the insurer on the contract~~ shall be paid ~~or reinstated~~ with interest thereon at a rate to be specified in the contract but not exceeding 6% per annum payable annually and the payment or reinstatement of any other indebtedness to the insurer upon the contract with interest at the policy loan interest rate, and in cases where applicable the insurer may also include a requirement of evidence of insurability satisfactory to the insurer.

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Sec. 4. 24-A MRSA §§2552, 2553 and 2554 are enacted to read:
§2552. Definitions

For the purposes of sections 2553 and 2554 the "published monthly average" means:

1. Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investors Services, Inc. or any successor thereto; or

2. In the event that Moody's Corporate Bond Yield Average-Monthly Average Corporates is no longer published, a substantially similar average, established by regulation issued by the Superintendent.

§2553. Maximum Rate of Interest on Policy Loans

1. Policies issued on or after the effective date of this Act shall provide for policy loan interest rates as follows:

A. A provision permitting a maximum interest rate of not more than 8% each year; or

B. A provision permitting an adjustable maximum interest rate established from time to time by the life insurer as permitted by law.

2. The rate of interest charged on a policy loan made under subsection 1, paragraph B, shall not exceed the higher of the following:

A. The published monthly average for the calendar month ending 2 months before the date on which the rate is determined;

or

B. The rate used to compute the cash surrender values under the policy during the applicable period plus 1% each year.

3. If the maximum rate of interest is determined pursuant to subsection 1, paragraph B, the policy shall contain a provision setting forth the frequency at which the rate is to be determined for that policy.

4. The maximum rate for each policy shall be determined at regular intervals at least once every 12 months, but not more frequently than once in any 3-month period. At the intervals specified in the policy:

A. The rate being charged may be increased whenever such increase, as determined under subsection 2, would increase that rate by 1/2% or more each year ; and

B. The rate being charged shall be reduced whenever such reduction, as determined under subsection 2, would decrease that rate by 1/2% or more each year .

5. The life insurer shall:

A. Notify the policyholder at the time a cash loan is made of the initial rate of interest on the loan;

B. Notify the policyholder, with respect to premium loans, of the initial rate of interest on the loan as soon as it is reasonably practical to do so after making the initial loan. Notice need not be given to the policyholder when a further premium loan is added, except as provided in paragraph C;

C. Send to policyholders with loans, reasonable advance notice of any increase in the rate; and

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D. Include in the notices required under this subsection the substance of the pertinent provisions of subsections 1 and 3.

6. The loan value of the policy shall be determined in accordance with section 2510, but no policy may terminate in a policy year as the sole result of a change in the interest rate during that policy year, and the life insurer shall maintain coverage during that policy year until the time at which it would otherwise have terminated and if there had been no change during that policy year.

7. The substance of the pertinent provisions of subsections 1 and 3 shall be set forth in the policies to which they apply.

8. For purposes of this section:

A. The rate of interest on policy loans permitted under this section includes the interest rate charged on reinstatement of policy loans for the period during and after any lapse of a policy;

B. The term "policy loan" includes any premium loan made under a policy to pay one or more premiums that were not paid to the life insurer as they fell due;

C. The term "policyholder" includes the owner of the policy or the person designated to pay premiums as shown on the records of the life insurer; and

D. The term "policy" includes certificates issued by a fraternal benefit society and annuity contracts which provide for policy loans.

9. No other provision of law may apply to policy loan interest rates unless made specifically applicable to such rates.

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§2554. Applicability to existing policies

The provisions of sections 2552 and 2553 shall not impair any insurance contract issued before the effective date of this Act.

Sec. 5. 24-A MRSA §4120, sub-§1, ¶D, as enacted by PL 1969, c. 132, §1, is amended to read:

D. A provision that the member shall be entitled to have the certificate reinstated at any time within 3 years from the due date of the premium in default, unless the certificate has been ^{completely} terminated through the application of a non-forfeiture benefit, cash surrender value or certificate loan, upon the production of evidence of insurability satisfactory to the society and the payment of all overdue premiums ~~and any other indebtedness to the society upon the certificate, together with interest on such premiums and such indebtedness, if any,~~ at a rate not exceeding 6% per annum compounded annually, and the payment or reinstatement of any other indebtedness to the society upon the certificate with interest at a rate determined under the terms of the certificate in accordance with sections 2552 to 2554;

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Statement of Fact

Section 1 requires that a policy provide that loans may be made against the policy at the interest rate specified under Section 4.

Section 2 provides that upon reinstatement of a policy the past due premiums remain subject to a maximum interest rate of 6%, but interest on unpaid loans will be at the rate specified under Section 4.

Section 3 provides that upon reinstatement of an annuity the past due premiums remain subject to a maximum interest rate of 6%, but interest on unpaid loans will be at the rate specified under Section 4.

Section 4 defines the average yield rate for corporate bonds cited in Moody's as the determinant of variations in the interest rate on policy loans; sets forth various requirements regarding notice to policyholders and frequency of interest rate variations; and provides that this section will not impair any insurance contract issued before the effective date of this Act.

Section 5 provides that upon reinstatement of a life benefit certificate issued by a fraternal benefit society the past due premiums remain subject to a maximum interest rate of 6%, but interest on unpaid loans will be at the rate specified under Section 4.

Reported by the Minority of the Committee on Business Legislation.
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