

MAINE STATE LEGISLATURE

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FIRST REGULAR SESSION

ONE HUNDRED AND TENTH LEGISLATURE

Legislative Document

No. 361

S. P. 153

In Senate, January 22, 1981

Referred to the Committee on Business Legislation. Sent down for concurrence and ordered printed.

MAY M. ROSS, Secretary of the Senate

Presented by Senator Clark of Cumberland.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED AND EIGHTY-ONE

AN ACT to Regulate Interest Rates on Life Insurance Policy Loans.

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

Sec. 1. 24-A MRSA § 2505, 2nd sentence, as enacted by PL 1969, c. 132, § 1, is amended to read:

The insurer may impose an interest charge ~~not in excess of 6% per annum, determined under the terms of the contract in accordance with sections 2552 to 2554~~, for the number of days of grace elapsing before the payment of the premium, and, whether or not such interest charge is imposed, if a claim arises under the policy during such period of grace, the amount of any premium due or overdue, together with interest and any deferred installment of the annual premium, may be deducted from the policy proceeds.

Sec. 2. 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~~ an amount equal to or, at the option of the party entitled thereto, less than the loan value of the policy.

Sec. 3. 24-A MRSA § 2512, sub-§ 3, as enacted by PL 1969, c. 132, § 1, is amended to read:

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~~ **determined under the terms of the policy in accordance with sections 2552 to 2554.**

Sec. 4. 24-A MRSA § 2518, as enacted by PL 1969, c. 132, § 1, is amended to read:

§ 2518. Grace period-annuities

In an annuity or pure endowment contract, other than a reversionary, survivorship or group annuity, there shall be a provision that there shall be a period of grace of one month, but not less than 30 days, within which any stipulated payment to the insurer falling due after the first may be made, subject at the option of the insurer to an interest charge thereon ~~at a rate to be specified in the contract but not exceeding 6% per annum~~ **to be determined under the terms of the contract in accordance with sections 2552 to 2554**, for the number of days of grace elapsing before such payment, during which period of grace the contract shall continue in full force; but in case a claim arises under the contract on account of death prior to expiration of the period of grace before the overdue payment to the insurer or the deferred payments of the current contract year, if any, are made, the amount of such payments, with interest on any overdue payments, may be deducted from any amount payable under the contract in settlement.

Sec. 5. 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~~ **determined under the terms of the contract in accordance with sections 2552 to 2554**, and in cases where applicable the insurer may also include a requirement of evidence of insurability satisfactory to the insurer.

Sec. 6. 24-A MRSA §§ 2552, 2553 and 2554 are enacted to read:

§ 2552. Definitions

For purposes of sections 2553 and 2554, the “published monthly average” means:

1. The monthly average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Incorporated, or any successor thereto; or

2. In the event that the monthly average of the composite yield on seasoned corporate bonds is no longer published, a substantially similar average, established by regulation issued by the commissioner.

§ 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% per annum; 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% per annum.

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 the policy. The maximum rate for each policy must 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 per annum; and

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

4. 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; and

- C. Send to policyholders, with loans, reasonable advance notice of any increase in the rate.
5. 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.
6. The substance of the pertinent provisions of subsections 1 and 2 shall be set forth in the policies to which they apply.
7. 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.
8. No other provision of law may apply to policy loan interest rates unless made specifically applicable to such rates.

§ 2554. Applicability to existing policies

The provisions of sections 2552 and 2553 shall not apply to any insurance contract issued before the effective date of this Act, unless the policyholder agrees in writing to the applicability of such provisions.

Sec. 7. 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 nonforfeiture 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~~ determined under the certificate in accordance with sections 2552 to 2554;

STATEMENT OF FACT

The purpose of this bill is to permit and set guidelines for life insurers to include in life insurance policies, issued after the effective date of this bill, a provision for periodic adjustment of interest rates on policy loans.