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INSURANCE CODE - INS

DIVISION 2. CLASSES OF INSURANCE [1880 - 12880.8] (*Division 2 enacted by Stats. 1935, Ch. 145.*)

PART 2. LIFE AND DISABILITY INSURANCE [10110 - 11549] (*Part 2 enacted by Stats. 1935, Ch. 145.*)

CHAPTER 5.6. Life Insurance Cost Indexes [10509.970 - 10509.975] (*Chapter 5.6 added by Stats. 1996, Ch. 1106, Sec. 2.*)

10509.970. It is the purpose of this chapter to assure prospective purchasers of life insurance that, when a presentation is made showing or comparing the cost of life insurance over a period of years which does not recognize the time value of money, it shall be accompanied by a presentation which recognizes the time value of money.

(*Added by Stats. 1996, Ch. 1106, Sec. 2. Effective January 1, 1997.*)

10509.971. (a) If, in connection with the selling of life insurance to which this chapter applies, an agent or insurer makes a presentation showing or comparing the cost of life insurance over a period of years which does not recognize the time value of money, the agent or insurer shall at the same time present the Life Insurance Surrender Cost Index and the Life Insurance Net Payment Cost Index which shall be calculated for both a 10-year and a 20-year period.

(b) An agent or insurer may use any other system or form of presentation for comparing the cost of life insurance over a period of years which recognizes the time value of money, including the Life Insurance Surrender Cost Index and the Life Insurance Net Payment Cost Index computed at an interest rate other than 5 percent.

(c) If the Life Insurance Surrender Cost Index or the Life Insurance Net Payment Cost Index is used, it need not be provided for a period which extends beyond the end of the premium payment period for the plan. The Life Insurance Surrender Cost Index and the Life Insurance Net Payment Cost Index shall be accompanied by an explanation substantially to the effect that the Life Insurance Surrender Cost Index and the Life Insurance Net Payment Cost Index are measures of the relative cost of similar plans of insurance, and that a low index number represents a lower cost than a higher index number.

(*Added by Stats. 1996, Ch. 1106, Sec. 2. Effective January 1, 1997.*)

10509.972. (a) The Life Insurance Surrender Cost Index for level premium plans of insurance shall be calculated by applying the steps in the following paragraphs:

- (1) Select either a 10-year or a 20-year period, commencing with the first year of the policy, over which the analysis is to be made.
- (2) Determine the cash surrender value, and terminal dividend, if any, available at the end of the period selected.
- (3) For participating policies, accumulate the annual cash dividends at 5 percent interest compounded annually to the end of the period selected and add this accumulation to the amount in paragraph (2).
- (4) Divide the amount in paragraph (3), or the amount in paragraph (2) for nonparticipating policies, by an interest factor that converts it into a level annual amount accruing over the period selected in paragraph (1). If the period is 10 years, this factor is 13.207, and if the period is 20 years, the factor is 34.719.
- (5) Subtract the amount in paragraph (4) from the annual premium payable.
- (6) Divide the amount in paragraph (5) by the number of thousands of the amount of insurance to arrive at the Life Insurance Surrender Cost Index.

(b) The Life Insurance Surrender Cost Index for plans of insurance with premiums which are not level shall be calculated as follows:

- (1) Select either a 10-year or a 20-year period, commencing with the first year of the policy, over which the analysis is to be made.

(2) Determine the cash surrender value, and terminal dividend, if any, available at the end of the period selected.

(3) For participating policies, accumulate the annual cash dividends at 5 percent interest compounded annually to the end of the period selected and add this accumulation to the amount in paragraph (2).

(4) Divide the amount in paragraph (3), or the amount in paragraph (2) for nonparticipating policies, by an interest factor that converts it into a level annual amount accruing over the period selected in paragraph (1). If the period is 10 years, this factor is 13.207, and if the period is 20 years, the factor is 34.719.

(5) Subtract the amount in paragraph (4) from the equivalent level premium determined by accumulating the annual premium payable at 5 percent interest compounded annually to the end of the period in paragraph (1) and dividing the result by the factor stated in paragraph (4).

(6) Divide the amount in paragraph (5) by the number of thousands of the amount of insurance to arrive at the Life Insurance Surrender Cost Index.

(c) For plans of insurance where the amount of insurance is not level, the amount of insurance in paragraph (6) of subdivision (a) and paragraph (6) of subdivision (b) shall be calculated as follows:

(1) Accumulate the amount payable upon death, regardless of the cause of death, at the beginning of each policy year at 5 percent interest compounded annually to the end of the period selected in paragraph (1) of subdivision (a) or paragraph (1) of subdivision (b).

(2) Divide the amount in paragraph (1) by an interest factor that converts it into a level amount of insurance that, if paid at the beginning of each year, would accrue to the amount of paragraph (1) over the period selected in paragraph (1) of subdivision (a) or paragraph (1) of subdivision (b). If this period is 10 years, this factor is 13.207, and if the period is 20 years, the factor is 34.719.

(d) The Life Insurance Net Payment Cost Index is calculated in the same manner as the comparable Life Insurance Surrender Cost Index except that the cash surrender value and any terminal dividend are set at zero.

(Added by Stats. 1996, Ch. 1106, Sec. 2. Effective January 1, 1997.)

10509.973. Any comparison must be used with caution and should not be emphasized to the point that actual premiums and policy benefits are overshadowed. Only similar plans of insurance should be compared. Any dividend or nonguaranteed element used in calculating the Life Insurance Surrender Cost Index or the Life Insurance Net Payment Cost Index shall be based on nonguaranteed elements calculated according to the standards required in Chapter 5.5 (commencing with Section 10509.950). With respect to participating policies, care must be taken to describe the policy dividend as a refund or return of part of the premium paid, which is not guaranteed and which is dependent on the investment earnings, mortality experience, and expense experience of the insurer.

(Added by Stats. 1996, Ch. 1106, Sec. 2. Effective January 1, 1997.)

10509.974. (a) Except as provided in subdivision (b), this chapter shall apply to any solicitation, negotiation, or procurement of life insurance occurring within this state.

(b) This chapter shall not apply to:

(1) Variable life insurance.

(2) Individual and group annuity contracts.

(3) Credit life insurance.

(4) Life insurance policies with no illustrated death benefits on any individual exceeding ten thousand dollars (\$10,000).

(5) Franchise life insurance.

(6) Group term life insurance.

(7) Life insurance policies issued in connection with pension and welfare plans as defined by and subject to the federal Employee Retirement Income Security Act (29 U.S.C. Sec. 1001 and following), as amended.

(Amended by Stats. 1998, Ch. 379, Sec. 2. Effective January 1, 1999.)

10509.975. (a) A life insurer shall provide to all prospective insureds a buyer's guide prior to accepting the applicant's initial premium or premium deposit. However, if the policy for which application is made contains an unconditional refund provision of at least 10

days, the buyer's guide shall be delivered with the policy or prior to delivery of the policy.

(b) For the purposes of this chapter, a buyer's guide is a document that contains, and is limited to, the current buyer's guide recommended for use by the National Association of Insurance Commissioners.

(Amended by Stats. 1997, Ch. 17, Sec. 90. Effective January 1, 1998.)