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AB-2634 Life insurance. (2017-2018)

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Assembly Bill No. 2634

CHAPTER 545

An act to add Section 10113.70 to the Insurance Code, relating to insurance.

[Approved by Governor September 19, 2018. Filed with Secretary of State September 19, 2018.]

LEGISLATIVE COUNSEL'S DIGEST

AB 2634, Chau. Life insurance.

Existing law requires an insurer transacting life insurance in California to register its policies with the Insurance Commissioner and comply with specified provisions of the Insurance Code relating to, among others, reserve liabilities, capital requirements, and disclosure requirements for replacement of life insurance policies. Existing law regulates illustrations used in the sale of a life insurance policy. Existing law requires an insurer to provide notice to the policyholder of a life insurance policy upon an increase of premium if that policy provides for premium changes, as specified.

For a policy in effect on or after April 1, 2019, this bill would require an insurer to provide a summary notice to a policyholder of a flexible premium life insurance policy whenever the policy is subject to an adverse change in the current scale of nonguaranteed elements, as defined. The bill would require the summary notice to include specified information and language about the adverse change. The bill would also require an insurer, for a flexible premium life insurance policy for which illustrations are used in effect on or after April 1, 2019, to provide an inforce illustration of current and future benefits and values whenever the policy is subject to an adverse change in the current scale of nonguaranteed elements. The bill would impose the notice requirements to an adverse change that is scheduled to take effect on or after July 1, 2019, and would impose the illustration requirement to an adverse change that is scheduled to take effect on or after July 1, 2020.

Vote: majority Appropriation: no Fiscal Committee: no Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 10113.70 is added to the Insurance Code, to read:

10113.70. (a) (1) Whenever a flexible premium life insurance policy is subject to an adverse change in the current scale of nonguaranteed elements, as soon as practicable, but no later than 90 days before the effective date of the adverse change in the current scale of nonguaranteed elements, the insurer shall provide a summary notice and, if the policy is designated as one for which illustrations shall be used, an inforce illustration of current and future benefits and values. The illustration or illustrations shall be based on the insurer's illustrated scale after the effective date of the adverse change in the current scale of nonguaranteed elements.

(2) An inforce illustration provided pursuant to this section shall comply with the requirements of subdivisions (a) and (b) of Section 10509.955 and subdivisions (a) and (e) of Section 10509.956.

(b) The summary notice shall be in no less than 12-point type, and the illustration and summary notice shall contain the following language in boldface type: "IMPORTANT: NOTICE OF CHANGE IN NONGUARANTEED ELEMENTS OF YOUR POLICY."

(c) The summary notice shall include the information required by paragraphs (1) to (5), inclusive, and the language set forth in paragraphs (6) to (8), inclusive:

(1) The name of each nonguaranteed element in the current scale of nonguaranteed elements that is subject to an adverse change.

(2) The definition of each nonguaranteed element in the current scale of nonguaranteed elements that is subject to an adverse change.

(3) A statement identifying the current rate or charge for each nonguaranteed element and the new rate or charge for each nonguaranteed element, with reference to the current scale of nonguaranteed elements, including the percentage change in the nonguaranteed element that the adverse change represents.

(4) An explanation that the adverse change in the current scale of nonguaranteed elements is based on expectations of the future cost of providing the benefits under the policy, and that the adverse change to the current scale of nonguaranteed elements will reduce the accumulation value and may increase the risk of policy lapse based on continued payment of current premiums.

(5) The date the adverse change to the current scale of nonguaranteed elements will take effect.

(6) "Policy information:

Last policy anniversary date: ____

Next policy anniversary date: ____

Current accumulation value: ____

Current cash surrender value (accumulation value minus any surrender charges and policy loans): ____"

(7) "Your options:

Take no action: This option will reduce the accumulation of your policy. Additional premiums will be required at some point in order to maintain your coverage if not otherwise adequately funded to maintain coverage.

Pay additional premiums: You may choose to pay additional premiums starting now to maintain your policy's accumulation value and death benefit coverage for the level and period anticipated before the increase.

Reduce the face value of your policy: If your policy is not already at the minimum value specified on your policy, you may choose to reduce the specified amount on your policy to a level that will be supported by the amount and years of the premium payments you would like to pay. Please note that reducing the specified amount may result in a surrender charge.

Surrender your policy: You may choose to surrender your policy for the current cash surrender value. Before you decide to surrender your policy, you should consult your tax, insurance, or financial advisor.

Convert your policy (applicable only if your policy includes a conversion or exchange privilege in the contract): If you wish to maintain life insurance coverage but are unable to pay increased premiums to keep your policy in force, you may choose to convert your flexible premium life insurance policy to a different type of life insurance policy we offer, subject to the terms of conversions listed in your policy, which may better suit your financial needs."

(8) "We understand that you may have further questions about this change or the options available to you. You may call your agent or our customer service team at [insert customer service toll-free telephone number and hours of operation]."

(d) As used in this section:

(1) "Adverse change" means a change to the current scale of nonguaranteed elements that increases or may increase a charge, or reduces or may reduce a benefit to the policy owner, other than a change in a credited interest rate or an index account parameter based entirely on changes in the insurer's expected investment income or hedging costs.

(2) "Current scale of nonguaranteed elements" means the nonguaranteed elements, as defined in subdivision (m) of Section 10509.953, that apply to a policy in the current year and in future years, unless changed by the insurer.

(3) "Index account parameter" means a feature impacting the net credited rate for an index account, such as participation rate, cap, or spread.

(e) This section does not prohibit an insurer from including additional information in the notice that is specific to the policy for which the notice is sent, so long as it meets the requirements of this section.

(f) This section does not apply to a corporate-owned life insurance policy permitted by Section 10110.4 under which all benefits are payable to the corporate policy owner.

(g) (1) This section shall apply to a flexible premium life insurance policy in effect on or after April 1, 2019.

(2) Notwithstanding paragraph (1), the notice requirement of this section shall apply to an adverse change in the current scale of nonguaranteed elements that is scheduled to take effect on or after July 1, 2019.

(3) Notwithstanding paragraph (1), the illustration requirement of this section shall apply to an adverse change in the current scale of nonguaranteed elements that is scheduled to take effect on or after July 1, 2020.