

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

Senate Bill 690 (Senator Astle)
 Finance

Life Insurance and Annuities - Duty to Search Death Master File and Locate Beneficiaries

This bill specifies that an insurer that issued or delivered a life insurance policy in the State before October 1, 2013, is not required to perform a semiannual search of a death master file under certain circumstances. Insurers that are required to perform this search must establish procedures to update the contact information of account holders. The bill also requires the Maryland Insurance Administration (MIA) to establish a lost policy finder to assist possible beneficiaries of life insurance policies in the State.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: Special fund expenditures increase by \$150,000 in FY 2015, which reflects a 30-day start-up delay, for MIA to hire a contractor to build and develop a secure database to establish a lost policy finder system. Future year expenditures reflect minimum ongoing maintenance costs for the database. Revenues are not affected.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	150,000	1,000	1,000	1,000	1,000
Net Effect	(\$150,000)	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill defines “asymmetric conduct” to mean an insurer’s use of a death master file search in connection with an annuity contract but not in connection with a policy of life insurance.

If an insurer that issued or delivered a life insurance policy in the State before October 1, 2013, had not engaged in asymmetric conduct before that date, that insurer is not required to perform good faith comparisons of the insurer’s in-force life insurance policies, annuity contracts, and retained asset accounts at least semiannually against the most recent death master file in order to identify any death benefit payments that may be due as a result of the death of an insured, annuitant, or retained asset account holder.

Insurers that are required to perform this kind of search must establish procedures for periodically contacting each insured, annuitant, and retained asset account holder to update the address and other contact information for the insured, annuitant, or retained asset and his or her beneficiary.

By June 1, 2015, the Insurance Commissioner must consult with insurers that issue or deliver life insurance policies in the State to develop and implement a lost policy finder to assist beneficiaries under policies of life insurance in locating unclaimed life insurance benefits. The lost policy finder must be accessible on MIA’s website and through MIA’s toll-free telephone number. MIA must assist a requestor with using the lost policy finder, including informing the requestor of the information an insurer may need to facilitate responding to a request made through the lost policy finder. Each insurer that issues or delivers a policy of life insurance in the State must cooperate with the Commissioner in responding to requests for information made through the lost policy finder.

Current Law: Chapter 171 of 2012 requires an insurer that issues, delivers, or renews a life insurance policy or annuity contract in the State to perform good faith comparisons of the insurer’s in-force life insurance policies, annuity contracts, and retained asset accounts at least semiannually against the most recent death master file in order to identify any death benefit payments that may be due as a result of the death of an insured, annuitant, or retained asset account holder. This requirement does not apply to (1) a specified annuity contract; (2) a policy or certificate of life insurance that provides a specified death benefit; (3) a preneed insurance contract; (4) a policy or certificate of credit life insurance; or (5) a policy or certificate of accidental death and dismemberment insurance. An insurer of a group life insurance policy is not required to perform a comparison unless the insurer provides full recordkeeping services to the group life insurance policyholder.

If an insurer's comparison has identified a death master file match with an insured, annuitant, or retained asset account holder, the insurer must, within 90 days after the comparison, conduct a good faith effort to confirm the death using other available records and information; determine whether benefits are due under the applicable policy, contract, or retained asset account; and, if applicable, conduct a good faith effort to locate any beneficiary and provide the beneficiary with the appropriate claims forms and instructions. An insurer must document these good faith efforts. An insurer may, to the extent permitted by law, disclose the minimum necessary personal information about an insured, an annuitant, a retained asset account holder, or a beneficiary to a person that the insurer reasonably believes may be able to assist the insurer in locating a beneficiary.

Background: The Social Security Administration's (SSA) Death Master File contains more than 89 million records of deaths. Each record contains, if possible, the deceased's Social Security number, name, date of birth, date of death, state or country of last residence, zip code of last residence, and zip code of lump-sum payment. However, SSA does not guarantee that the absence of a record ensures the person is alive or that the presence of a record is not included erroneously.

In response to concerns that state life insurers were using SSA's Death Master File to stop annuity payments once a contract holder dies rather than using the file to find beneficiaries who have yet to file a claim, the New York State Insurance Department (now the Department of Financial Services) sent a letter in July 2011 to each of the state's 172 life insurance companies requiring the insurers to immediately locate local beneficiaries of dead policyholders. Insurers were required to report to the state the results of their efforts to locate these beneficiaries. According to the New York Department of Financial Services, the recipients of the July letter had paid approximately \$52.6 million to beneficiaries since the start of the department's investigation into the practice.

According to the American Council on Life Insurers, eight states have established lost policy finders to assist people and their families in locating and identifying individual or group life insurance or annuity policies on the life of a deceased party or family member who may have had a policy. Generally, states have implemented lost policy finders by maintaining a database that automatically contacts insurers in the event of a request and contains electronic contact information for all life insurance companies with policies in force in the state. Many other states provide tips and less thorough assistance to potential beneficiaries attempting to locate a lost life insurance policy.

State Expenditures: MIA advises that the optimal manner in which to implement the bill is to develop a separate encrypted database system and use a secure file transfer protocol (FTP portal) type approach to notify insurance companies of new requests for lost insurance policies in a lost policy finder system. MIA estimates that total costs for

the project approximate \$150,000 to implement FTP service for the project, as well as to hire contractors to create necessary web pages and the database. This estimate assumes a full year to complete the database. The Department of Legislative Services concurs with this estimate. Future year expenditures reflect minimum maintenance costs for the database. Any additional workload to monitor the system and assist users of the policy finder can be handled with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: HB 797 (Delegates Tarrant and Kipke) - Health and Government Operations.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, American Council of Life Insurers, New York Department of Financial Services, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2014
ncs/ljm

Analysis by: Richard L. Duncan

Direct Inquiries to:
(410) 946-5510
(301) 970-5510