

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 552

(Chair, Finance Committee)(By Request - Departmental -
Maryland Insurance Administration)

Finance

Life Insurance - Payment of Death Benefits Under Group Policies

This departmental bill requires an insurer of a group life insurance policy to pay the certificate death benefit to the designated beneficiary of an insured individual if (1) the insurer accepts premiums from the insured after the insured's eligibility for coverage has ended because of termination of the insured's employment or membership in the class or classes eligible for coverage under the policy and (2) the insured dies during a period of coverage in which the required premium was paid and accepted.

Fiscal Summary

State Effect: The bill does not directly affect State finances or operations.

Local Effect: None.

Small Business Effect: The Maryland Insurance Administration (MIA) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Current Law: All policies of group life insurance in the State must contain a provision that specifies that any sum due because of the death of the insured is payable to the designated beneficiary of the insured subject to (1) policy provisions in the event that a designated beneficiary is not alive at the death of the insured and (2) any right the insurer reserves in the policy to pay part of the sum, but no more than \$2,500, to a person the insurer considers equitably entitled to it for having incurred funeral or other expenses incident to the insured's death or last illness.

Background: MIA advises that it has recently received complaints regarding life insurers placing the responsibility on the group policyholder (generally an employer) for administering the group life insurance policy. Claims are routinely denied for retirees after their death because the insurer states that the coverage terminated on the employee when the employee ceased to be actively at work; however, many employers who administer the group life insurance policies do not understand the terms of the contracts leading to claim denials for retirees.

An employee who loses his or her coverage is required to be offered a conversion policy; however, the employee is sometimes not notified appropriately. In many cases, a retiree continues to pay premiums to the employer and the group life insurer continues to accept the premium only to deny the life insurance claim after the death of the retiree. MIA believes that, if a retiree continues to pay a premium and he or she is not informed of his or her conversion rights, then the beneficiaries should not be denied the life insurance benefits.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - February 26, 2015
md/ljm

Analysis by: Richard L. Duncan

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurers – Group Life Insurance – Payment of Death Benefits

BILL NUMBER: SB 552

PREPARED BY: Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

 X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

 WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This bill will protect consumers who have purchased group life insurance coverage under their employer group plans and who continue to pay premium after coverage would otherwise end because they are not informed of the termination of the coverage or that a conversion option is available. Insurers will be impacted in that they will be liable for the death benefit, if the insurer continued to accept the premium for the former employee after coverage would have otherwise terminated. There will be no cost to the Maryland Insurance Administration to implement this legislation or to small businesses.