

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 555

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

Finance

Health and Government Operations

Life Insurance - Cash Surrender Values - Supplemental Benefits

This departmental bill clarifies that supplemental benefits contained in riders (policies purchased separately from a basic policy that provide additional benefits at additional costs) that are issued after the starting date of a policy are still required to comply with the cash value requirements that would apply if the benefit were in the contract.

Fiscal Summary

State Effect: None. The bill simply fixes a technical error that occurred during recodification and codifies an existing practice.

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/Background: Maryland Law specifies that the basic cash value of a policy is equal to the remainder of the future guaranteed benefits that would have been provided by the policy. This value excludes any existing paid-up additions and takes into consideration any mitigating nonforfeiture factors. A cash surrender value is the amount a life insurance policyholder is entitled to receive from an insurer if the life insurance policy is voluntarily canceled before the death of the insured or before the policy matures. The amount is based on the insurance premiums paid up until the point when the policy is

canceled. It is also commonly known as the “cash value,” “surrender value,” and “policyholder’s equity.”

Insurance Law specifies that, for riders on life insurance policies, the basic cash value must be equal to the cash surrender value of the policy; however, this specification does not apply to § 16-309 of the Insurance Article, which governs riders issued after the starting date of a basic policy. MIA advises that reference to § 16-309 was inadvertently left out when the Insurance Article was recodified by Chapter 11 of 1996. MIA further advises that all insurers in the State follow this requirement, although it is technically not codified. Therefore, the bill simply makes a technical correction and codifies an existing practice.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 1, 2015
md/ljm

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Cash Surrender Values – Supplemental Benefits

BILL NUMBER: SB 555

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 proposed legislation will not have an economic impact. This is a technical change to include a cross-reference that was inadvertently omitted. It does not impact consumers, industry, State agencies or small businesses.