

SB 3061

Measure Title: RELATING TO INSURANCE.
Report Title: Insurance; Accelerated Death Benefits; Required Provisions
Description: Requires life insurance policies that offer long-term care benefits to include an accelerated death benefits provision.
Companion:
Package: None
Current Referral: HMS, CPN
Introducer(s): BAKER



HAWAII

Senate Committee on Human Services
Hearing Date: January 31, 2011
Time: 1:15 pm

RE: SB 3061 – Relating to Insurance

Chair Chun-Oakland, Vice Chair Ihara and members of the Committee, the National Association of Insurance and Financial Advisors (NAIFA) Hawaii is made up of life and health insurance agents throughout Hawaii, who primarily market life, annuities, long term care and disability income insurance products.

SB 3061 is the product of a recommendation from the Long Term Care Commission to utilize life insurance policies for LTC benefits.

We are opposed to this measure.

This measure adds a new definition for “accelerated death benefit” on page 1, lines 4 to 9.

Also, it will require **accelerated death benefit (ADB)** -- aka accelerated benefit rider (ABR) – to be provided in all life insurance policies on page 1, lines 12 to 15, §431:10H-114, Life Insurance Policies Offering Long Term Care Benefits, HRS – which is the long term care insurance section of the insurance code – to include **all** life insurance policies delivered or issued in Hawaii.

The definition for “long term care insurance” in §431:10H-104, includes the following:

With regard to life insurance, **this term does not include life insurance policies that accelerate the death benefit** specifically for one or more of the qualifying events of terminal illness, medical conditions requiring extraordinary medical intervention, or permanent institutional confinement, and that provide the option of a lump-sum payment for those benefits and in which neither the benefits nor the eligibility for the benefits is conditioned upon the receipt of long-term care.

There is an “accelerated death benefit” rider that can be added to a life insurance policy for which no additional premium is charged. It is offered on

most life insurance policies....term, whole, universal policies. It allows for a percentage of the death benefit to be paid in advance of the insured's death when certain severe medical conditions are present as stated in the new definition on page 1 of the bill. Each insurance company has its own criteria as to when this benefit may be accessed.

There are also specific life insurance policies with LTC benefits known as hybrid life/LTC policies....insurers have various differing names for these hybrid products. These hybrid policies can also have accelerated death benefits separate from the LTC benefit.

These policies are life insurance policies first, not a stand alone LTC policy. The LTC benefits payable are considered the "accelerated death benefit". Insurers are able to do this due to the cash value in a life insurance policy & the death benefit. The benefit of these hybrid policies is that **the LTC benefits paid out will retain its income tax free status** since it will meet the requirements of the federal tax "qualified" LTC insurance policy. But do note that tax qualified LTC insurance contracts require "reimbursement distribution" – insurers will pay costs only, not the benefit amount.

Tax free status may not apply to indemnity type LTC policies as there are limits set by the federal tax law as to the payouts.

To include the amendment in Section 2 of the bill requiring all life insurance policies to include accelerated death benefit is questionable since the provision is readily available as an option.

This is a very complex issue as insurers have differing contracts for the hybrids.

For these reasons, we ask that the bill be held.

Mahalo for the opportunity to testify.

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