

MINUTES OF THE MEETING  
BUSINESS & INDUSTRY COMMITTEE  
MONTANA STATE SENATE

February 6, 1979

The meeting of the Business and Industry Committee was called to order by Chairman Frank Hazelbaker on the above date in Room 404 of the State Capitol Building at 10:00 a.m.

ROLL CALL: All members were present.

SENATE BILL 209: Chairman Hazelbaker introduced Senator Steve Brown, sponsor of SB 209, who explained the bill to the Committee.

Senator Brown stated this bill is an act relating to life insurance policy loans to provide for a maximum rate of interest of 8 per cent a year on such loans under certain conditions.

Senator Brown stated the bill is consistent with insurance laws being made in other states. It makes sense from the standpoint both of consumers and the insurance companies, and it will result in larger dividends to policyholders.

Senator Mike Anderson spoke in support of SB 209. He stated it looks like a good benefit to the policyholders. He presented Attachment A and explained it to the Committee.

Mr. Patrick McKittrick, representing Life Insurers Temporary Legislative Association, stated the language in this bill is more clear than a bill submitted two years ago.

Mr. George Hardy, representing Northwestern Mutual Life Insurance Co., presented Attachment B. He stated the main function of insurance companies is to provide life insurance coverage at low cost.

Mr. Hardy told the Committee the dividend factor is important.

Senator Lowe wanted to know why insurance companies don't cut their rates instead of giving dividends.

Mr. Hardy stated that in many states the premiums on policies had been reduced.

Senator Regan wanted to know the cheapest kind of insurance you could buy.

Mr. Hardy stated that the EOL policy would probably be the cheapest, but this was a difficult question because so many factors had to be considered. Mr. Hardy stated that the EOL policy would provide maximum coverage for lowest cost, but the least dollars for any coverage would be term insurance.

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Senator Regan inquired about the percentage of return on the dollar.

Mr. Hardy stated the current dividend interest rate on the 8 per cent policy is 6.6 per cent. In Montana it is 6.15 per cent.

Senator Regan asked about a guarantee on dividends.

Senator Anderson stated that dividends are not guaranteed. They are normally quite low. In most states it is 4 per cent. The guarantee is just the starting point.

Senator Goodover stated he felt the consumer could not understand most insurance policies.

Mr. Hardy stated that this was true, because insurance is very complicated; and in many instances, only another actuary understands it.

Mr. Les Loble, representing the American Council of Life Insurance, stated they recommend passage of SB 209.

Mr. Ross Cannon, representing the Montana Association of Life Underwriters, stated they unanimously support SB 209.

Senator Goodover inquired about an amendment which would charge interest in advance.

Mr. Hardy stated that to prevent them from charging interest in advance would cause them serious problems.

Senator Regan inquired as to the number of life insurance companies licensed to do business in the state.

Mrs. Driscoll stated there about 450 life insurance companies licensed in the state.

Mrs. Driscoll also stated that rate problems are being taken care of in most cases by competition.

The hearing was concluded on Senate Bill 209.

ADJOURN: There being no further business, the meeting was adjourned at 11:00 a.m.



Sen. Frank Hazelbaker, Chairman

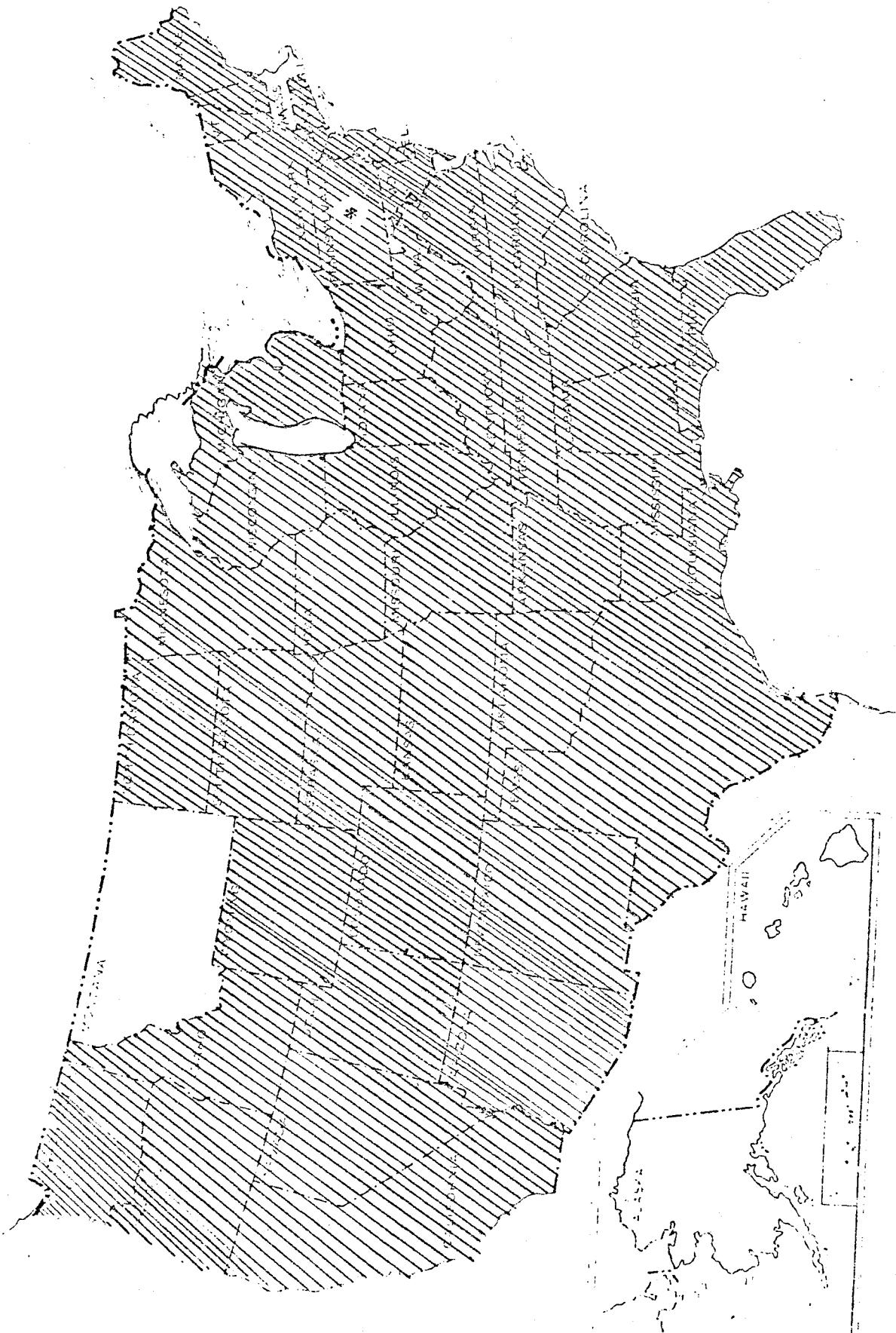
## ROLL CALL

## BUSINESS & INDUSTRY COMMITTEE

46TH LEGISLATIVE SESSION -- 1979

Date Feb 6





States whose statutes permit

a policy loan interest rate of  
8% or more (47 states, incl. D.C.)

\*Pa. --No limit on Policy Loan Interest Rate,  
but 6% usury limit.

EX.A

47 STATES (INCL. D. C.) WITH NO STATUTORY LIMIT ON LIFE INSURANCE  
POLICY LOAN INTEREST OR LIMIT OF 8% OR MORE

Alabama (1972)	Louisiana (1975)	
Arizona (1978)	Maine	Oklahoma (1975)
Arkansas (1977)	Maryland (1978)	Oregon (1975)
California	Michigan (1976)	Pennsylvania (*)
Colorado	Minnesota	Rhode Island (1975)
Connecticut	Mississippi	South Carolina
Delaware (1975)	Missouri	South Dakota (1974)
District of Columbia	Nebraska (1978)	Tennessee
Florida (1977)	Nevada	Texas
Georgia (1975)	New Hampshire	Utah (1977)
Idaho (1975)	New Jersey	Vermont (1977)
Illinois	New Mexico (1977)	Virginia (1975)
Indiana	New York (1977)	Washington (1977)
Iowa	North Carolina (1976)	West Virginia (1977)
Kansas (1978)	North Dakota	Wisconsin
Kentucky	Ohio	Wyoming

Recent legislation indicated in parenthesis

(\*)No limit on policy loan interest rates but 6%  
usury limit

4 STATES WITH 6% STATUTORY LIMIT ON  
LIFE INSURANCE POLICY LOAN INTEREST

Alaska

Hawaii

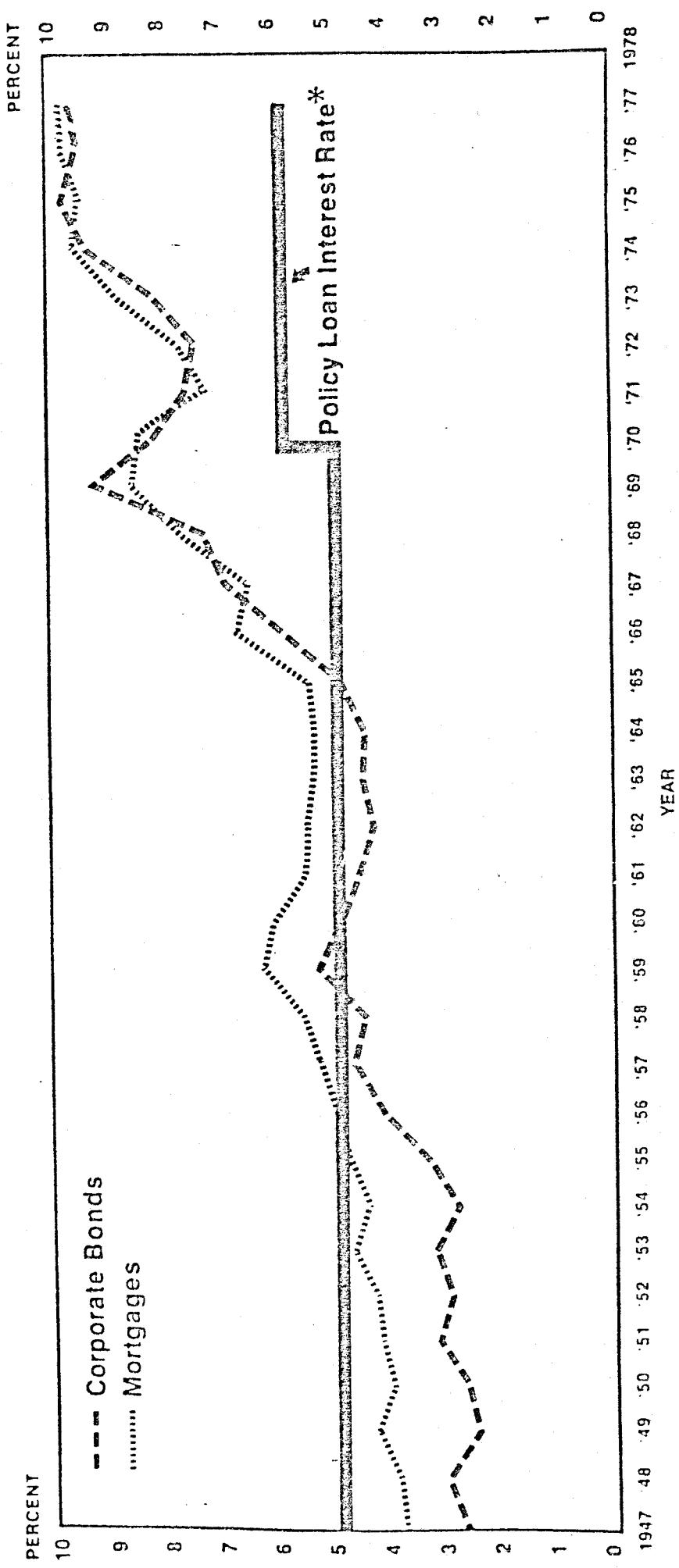
Massachusetts  
Montana

*why does it make it a better product to sell?*

GAH 6/6/78

EX A-2

INTEREST RATES  
1947-1977



\*RATE USED IN NEW POLICIES BY MOST LIFE INSURANCE COMPANIES

POLICY LOAN INTEREST RATES IN RELATION  
TO OTHER LONG-TERM INTEREST RATES

	<u>Interest Rate on Corporate Bonds</u>	<u>Interest Rates on Mortgages</u>	<u>Interest Rate on Policy Loans</u>
1947	2.88	3.86	5
1948	3.15	3.97	5
1949	2.53	4.32	5
1950	2.75	4.08	5
1951	3.22	4.26	5
1952	3.04	4.32	5
1953	3.23	4.78	5
1954	2.87	4.56	5
1955	3.27	4.73	5
1956	4.26	5.00	5
1957	4.04	5.61	5
1958	4.44	5.60	5
1959	5.27	6.23	5
1960	4.94	6.04	5
1961	4.58	5.69	5
1962	4.28	5.53	5
1963	4.49	5.45	5
1964	4.49	5.45	5
1965	4.92	5.62	5
1966	5.98	6.77	5
1967	6.93	6.81	5
1968	7.28	7.50	5
1969	9.22	8.62	5
1970	8.13	8.40	6
1971	7.54	7.50	6
1972	7.50	7.56	6
1973	8.09	8.78	6
1974	9.47	9.51	6
1975	9.86	9.74	6
1976	9.52	9.73	6
1977	9.54	9.70	6*

\* Most major life insurance companies are  
now using 8% in new policies in most states.

POLICY LOANS AS A PERCENT OF ORDINARY RESERVES

U. S. Life Companies

	<u>Ranked by Assets</u>	<u>1965 %</u>	<u>1967 %</u>	<u>1969 %</u>	<u>1971 %</u>	<u>1973 %</u>	<u>1975 %</u>	<u>1977 %</u>	<u>Ratio 1977/1965</u>
	<u>Mutual Companies (21)</u>								
Prudential	7.49	8.27	9.51	10.64	11.09	12.06	12.50	1.67	
Metropolitan Life	8.34	8.61	9.44	9.99	9.78	9.95	9.77	1.17	
Equitable	10.35	12.47	16.12	18.19	19.46	21.84	22.58	2.18	
New York Life	12.12	14.97	19.17	21.88	23.85	26.46	26.93	2.22	
John Hancock	10.01	9.96	11.68	12.75	13.55	15.09	15.95	1.59	
Northwestern Mutual	9.55	13.17	19.43	22.05	24.88	27.53	27.93	2.92	
Massachusetts Mutual	14.83	19.83	26.71	29.94	32.07	34.41	34.37	2.32	
Mutual of New York	10.01	12.06	15.82	17.86	19.14	21.58	22.64	2.26	
New England Mutual	12.14	16.20	22.26	25.35	27.95	30.75	30.68	2.53	
Connecticut Mutual	12.77	17.30	23.43	26.00	27.81	30.39	30.51	2.39	
Mutual Benefit (NJ)	13.86	19.20	25.66	29.19	31.78	34.26	34.16	2.46	
Penn Mutual	10.98	13.39	18.07	20.54	22.11	24.53	25.17	2.29	
Bankers Life - Iowa	8.11	9.62	12.39	14.75	16.25	19.02	22.95	2.83	
Fidelity Mutual	10.39	13.06	17.86	20.31	21.27	23.55	23.81	2.29	
National Life - Vermont	18.65	27.71	34.77	38.24	41.33	44.07	43.07	2.31	
Phoenix Mutual	21.72	25.93	30.67	33.51	35.79	38.20	38.29	1.76	
State Mutual	12.24	16.02	22.09	26.47	29.53	32.25	32.42	2.65	
Provident Mutual	10.14	14.04	19.89	23.36	25.73	28.51	28.86	2.85	
Berkshire Life	9.34	12.20	16.64	18.95	21.11	23.52	23.71	2.54	
Guardian Life - NY	12.98	16.62	22.17	24.82	27.15	29.88	29.49	2.27	
Home Life (NY)	12.28	15.53	21.45	24.95	27.44	30.97	31.56	2.57	
<u>Stock Companies (8)</u>									
Aetna Life	7.71	9.32	12.45	14.29	15.62	17.93	18.37	2.38	
Connecticut General	6.14	8.41	12.78	15.62	17.88	20.22	19.71	3.21	
Travelers	2.69	9.29	12.12	13.81	14.84	16.78	16.98	2.21	
State Farm	8.59	10.15	11.82	12.68	12.89	13.67	13.88	1.62	
Lincoln National	8.99	10.58	13.56	14.86	15.72	17.55	17.62	1.96	
Northwestern National	10.77	13.01	16.62	18.50	19.32	20.66	20.70	1.92	
Occidental of California	12.39	14.70	17.12	18.61	19.32	21.05	20.74	1.67	
Continental Assurance	13.16	16.69	21.06	23.04	24.18	26.24	25.39	1.93	

Stock Companies (8)

Aetna Life	7.71	9.32	12.45	14.29	15.62	17.93	18.37	2.38
Connecticut General	6.14	8.41	12.78	15.62	17.88	20.22	19.71	3.21
Travelers	2.69	9.29	12.12	13.81	14.84	16.78	16.98	2.21
State Farm	8.59	10.15	11.82	12.68	12.89	13.67	13.88	1.62
Lincoln National	8.99	10.58	13.56	14.86	15.72	17.55	17.62	1.96
Northwestern National	10.77	13.01	16.62	18.50	19.32	20.66	20.70	1.92
Occidental of California	12.39	14.70	17.12	18.61	19.32	21.05	20.74	1.67
Continental Assurance	13.16	16.69	21.06	23.04	24.18	26.24	25.39	1.93

GAI: 12/15/78

Based on data from  
Math & Valuation Division

SOURCE: Annual Statement  
Policy Loans - Assets, page 2, line 5  
Ordinary Life Reserves - Exhibit 8, Section A,  
Column 4 totals (net)

POLICY LOANS AS % OF CASH VALUE (C.V.)  
IN RELATION TO SIZE OF POLICY

Policy Size	Loans as % of C.V.	Policy Size	Loans as % of C.V.
Prudential, 1978		Mutual Benefit, 1976	
Less than \$ 5,000	4.3%	Up to \$ 9,999	18%
\$ 5,000 to \$ 19,999	9.7%	\$ 10,000 to \$ 24,999	32%
\$ 20,000 to \$ 49,999	19.4%	\$ 25,000 to \$ 49,999	50%
\$ 50,000 to \$ 99,999	34.6%	\$ 50,000 to \$ 99,099	58%
\$100,000 to \$199,999	44.6%	\$ 100,000 and over	64%
\$200,000 and over	70.7%		
Massachusetts Mutual, 1976			
Less than \$ 5,000	10%	Less than \$ 5,000	5%
\$ 5,000 to \$ 9,999	19%	\$ 5,000 to \$ 19,999	12%
\$ 10,000 to \$ 24,999	29%	\$ 20,000 to \$ 49,999	22%
\$ 25,000 to \$ 49,999	41%	\$ 50,000 to \$ 99,999	30%
\$ 50,000 to \$ 99,999	50%	\$100,000 to \$ 199,999	36%
\$100,000 to \$499,999	58%	\$200,000 and over	44%
\$500,000 and over	69%		
National Life of Vermont, 1976			
Less than \$ 5,000	11%	Up to \$ 1,999	8%
\$ 5,000 to \$ 9,999	20%	\$ 2,000 to \$ 4,999	12%
\$ 10,000 to \$ 24,999	33%	\$ 5,000 to \$ 9,999	18%
\$ 25,000 to \$ 49,999	48%	\$ 10,000 to \$ 24,999	26%
\$ 50,000 to \$ 99,999	58%	\$ 25,000 to \$ 49,999	36%
\$100,000 and over	66%	\$ 50,000 to \$ 99,999	45%
		\$100,000 and over	57%
Northwestern Mutual Life, 1975			
Up to \$ 2,500	11%	Up to \$ 4,999	11%
\$ 2,500 to \$ 7,500	20%	\$ 5,000 to \$ 9,999	17%
\$ 7,500 to \$ 15,000	30%	\$ 10,000 to \$ 24,999	26%
\$ 15,000 to \$ 30,000	35%	\$ 25,000 to \$ 49,999	41%
\$ 30,000 to \$ 70,000	41%	\$ 50,000 to \$ 99,999	54%
\$ 70,000 to \$200,000	48%	\$100,000 and over	63%
Over \$200,000	53%		
New England Mutual, 1974			
Up to \$ 4,999	13%	Up to \$ 4,999	13%
\$ 5,000 to \$ 9,999	18%	\$ 5,000 to \$ 9,999	17%
\$ 10,000 to \$ 24,999	31%	\$ 10,000 to \$ 24,000	23%
\$ 25,000 to \$ 49,999	49%	\$ 25,000 to \$ 49,999	55%
\$ 50,000 to \$ 99,999	56%	\$ 50,000 to \$ 99,999	66%
\$100,000 to \$499,999	62%	\$100,000 to \$499,999	74%
\$500,000 and over	69%	\$500,000 and over	75%

		Policies With Loans	Policies Without Loans
Massachusetts Mutual Life	(12/31/74)	29.2%	70.8%
Northwestern Mutual Life	(12/31/75)	26.7%	73.3%
Provident Mutual Life	(12/1/75)	29.1%	70.9%
Metropolitan Life	(12/31/76)	11 %	89 %

COMPARISON OF 20-YEAR POLICYHOLDER DIVIDENDS\* FOR  
 \$20,000 WHOLE LIFE POLICY ISSUED AT AGE 35

COMPANY	DIVIDENDS* FOR 20 YEARS		INCREASE FOR 8% POLICY OVER 6% POLICY
	with 6% policy loan interest rate	with 8% policy loan interest rate	
American General	\$ 2808	\$ 2962	\$ 154
Berkshire Life	2027	2364	337
Central Life Assurance	3818	4112	294
CNA, Continental Assur.	1138	1453	315
Connecticut Mutual	1385	1651	266
Continental American	2835	3157	322
Equitable Life of Iowa	2693	2792	99
Equitable Life - NY	3124	3330	206
Fidelity Mutual	880	973	93
General American	2505	2785	280
Guardian Life	2466	2674	208
Home Life - NY	3622	3868	246
Indianapolis Life	2341	2588	247
John Hancock	2283	2475	192
Linccln National	2644	2890	246
Massachusetts Mutual	2981	3134	153
Metropolitan	2653	2797	144
Minnesota Mutual	2572	2799	227
Mutual Benefit	3464	3713	249
Mutual of New York	2230	2583	353
National Life - Vermont	2668	2960	292
New England Mutual	2837	3018	181
New York Life	2360	2560	200
Northwestern Mutual	3432	3692	260
Northwestern Natl. Life	2588	2743	155
Penn Mutual	2823	3028	205
Phoenix Mutual	2820	3143	323
Provident Mutual	3082	3354	272
Security Mutual	2348	2577	229
Standard of Oregon	3076	3401	325
State Mutual	3048	3317	269
Union Mutual	2820	2948	128

\*Based on 1978 dividend scales now in effect, which are not an estimate, projection or guarantee of future results. The purpose of this table is to show the differences resulting from the use of different interest rates. This data should not be used to compare companies since it is inadequate for that purpose.

EXCERPTS FROM STATEMENTS BY ACADEMIC AUTHORITIES  
ON THE POLICY LOAN PROBLEM

"I strongly urge that the eight percent policy loan rate be approved. . . . A six percent policy loan rate indeed discriminates unfairly against the nonborrower in favor of the borrower who capitalizes on the opportunity to borrow funds at below market rates for long-term safe investments for reinvestment at higher rates elsewhere. No logical argument appears to support such a blatant inequity."

Professor Robert I. Mehr,  
University of Illinois (1976)

"The policy loan choice at a 6% interest rate is clearly underpriced so that its exercise by some is detrimental to the non-borrowing policyholders. . . . I wholeheartedly support the request. . . to issue policies . . . calling for as much as an 8% interest rate on policy loans."

E. J. Moorhead, FSA,  
Actuarial Consultant to the  
U. S. Senate Antitrust and  
Monopoly Subcommittee (1976)

"The primary consideration in setting policy loan interest rates should be the relationship between such rates and the yield obtainable on long-term investments. There is a serious question of equity among the various classes of policyholders . . . when policyholders are permitted to borrow from the companies at rates substantially less than the yield obtainable on investments in the open market."

Professor Dan M. McGill,  
Wharton School of Finance,  
University of Pennsylvania (1976)

"In my judgment, the soundest approach to policy loan interest rates is deregulation. Competition can be relied upon, I am confident, to keep policy loan interest rates at a level that is not excessive. Since deregulation may be politically unfeasible, the next best solution would be a limit that is much more realistic than the present prevailing 6% rate. . . the situation of the last decade or so has made it very clear that the prevailing limitation should be liberalized to something like 8%."

Professor Spencer L. Kimball,  
University of Chicago Law School  
(1977)

NAME: Mike Anderson DATE: 2/7/78

ADDRESS: State Senate 11

PHONE: 587-4254 Bus. ✓

REPRESENTING WHOM? Self as insurance agent

APPEARING ON WHICH PROPOSAL: 89 Ins. Com. Ad. SB 209

DO YOU: SUPPORT?  AMEND? \_\_\_\_\_ OPPOSE? \_\_\_\_\_

COMMENTS: \_\_\_\_\_

NAME: D. PATRICK MCKITTRICK

DATE: 2-6-77

ADDRESS: P.O. Box 11841 St. 7

PHONE: 442-1368 (Helen -)

REPRESENTING WHOM? Lia Branca Tongay, Leg. A3302

APPEARING ON WHICH PROPOSAL: *S.B. 207*

DO YOU: SUPPORT?  AMEND?  OPPOSE?

**COMMENTS:**

NAME: Ross Cannon DATE: 2-6-79

ADDRESS: 2031 11th Ave. Helena, Mt.

PHONE: 442-9930

REPRESENTING WHOM? Mont. Assn. of Life Underwriters

APPEARING ON WHICH PROPOSAL: SB 219

DO YOU: SUPPORT?  AMEND? \_\_\_\_\_ OPPOSE? \_\_\_\_\_

COMMENTS: \_\_\_\_\_

NAME :

Geo. Hardy

DATE: 2-6-79

ADDRESS: 720 E. WISCONSIN AVE. MILWAUKEE  
WIS. 53202

PHONE: 414-271-1444

REPRESENTING WHOM? *NORTHWESTERN MUTUAL LIFE INS. CO.*

APPEARING ON WHICH PROPOSAL: S. B. 209

DO YOU: SUPPORT?  AMEND?  OPPOSE?

#### COMMENTS :

NAME: Les Lobb II DATE: 2-6-79

ADDRESS: 716 Power Helena

PHONE: 4412 0070

REPRESENTING WHOM? Am. Council of Life Insurance

APPEARING ON WHICH PROPOSAL: SB 209

DO YOU: SUPPORT? X AMEND? \_\_\_\_\_ OPPOSE? \_\_\_\_\_

COMMENTS: \_\_\_\_\_

NAME: Ed Sheehy, Jr. DATE: 2-6-79

ADDRESS: 2031 11th Ave., Helena, MT.

PHONE: 442-9930

REPRESENTING WHOM? Mont. Assoc. of Life Underwriters

APPEARING ON WHICH PROPOSAL: SB 209

DO YOU: SUPPORT?  AMEND?  OPPOSE?

COMMENTS: \_\_\_\_\_

SENATE Business & Industry COMMITTEE

BILL 209

**VISITORS' REGISTER**

DATE Feb. 4

Please note bill no.

(check one)  
SUPPORT | OPI

*Submitted by Mr. McKittrick  
2/6/79*

KEY POINTS ON MONTANA SENATE BILL NO. 209

1. This bill would permit life insurance companies to use a maximum interest rate of 8% for loans on life insurance policies, if they agree to charge lower premiums or pay higher dividends to policyholders.
2. The bill would not affect policies issued before its effective date.
3. The present 6% limit was enacted in Montana in 1961.
4. 45 states now permit an 8% maximum, including 25 with no limit, 19 of which recently changed from 6% to 8%, and New York which changed from 5% to 8% in 1977.
5. Companies issuing policies with an 8% rate are paying larger dividends to their policyholders on those policies or charging lower premiums. This helps most policyholders since about 3/4 have not borrowed on their policies.
6. Passage of this bill will reduce the cost of life insurance. Many major companies will charge lower net premiums in Montana if this bill is passed. This is already being done in 45 states, including all bordering states.
7. If the bill is not passed most Montana residents will continue to pay more for life insurance than residents of other states.
8. Most borrowing on policies has been done by the larger policyholders. This reduces the earnings of the companies which then pay lower dividends to all policyholders. As a result, the Montana policyholder who has not borrowed, usually the small policyholder, is getting smaller dividends than he should be getting.
9. In 1962 life insurance companies were investing in mortgages and bonds at about 5-1/2%, and the Montana limit on policy loan interest rates was 6%. In 1978 the companies' new investments in mortgages and bonds were made at about 9-1/2% and the Montana limit on policy loan interest rates was still 6%.