Frerichs Proposes Commonsense Change to Compel Life Insurers to Pay Death Benefits

HB 302 Forces Insurance Companies to Make Good on Promise Dating Back to 1996

SPRINGFIELD – New legislation would compel life insurance companies to review their records going back to 1996 and confirm death benefits have been paid to life insurance customers who died, Illinois State Treasurer Michael Frerichs said today.

The proposal represents the next logical step to bring commonsense change to the life insurance industry because some companies acknowledge not paying death benefits when they knew or should have known a customer died. The unpaid benefits are baked into the profit plans, some insurers acknowledge.

“Some companies will tell you that it is impossible to search records going back to 1996. We’re really supposed to believe that?” Frerichs said. “We live in an age that contemplates driverless cars and robotic surgeries, so it is a bit dramatic for some lobbyists to declare that it’s too hard to search their files.”

Last year, Frerichs championed bi-partisan legislation that now requires life insurance companies to use the Death Master File, a respected anti-fraud database used to stop waste, fraud and abuse in the Social Security system, to confirm a policyholder is not dead. However, the measure only applied to policies whose premium payments were in good-standing, or “in force,” from January 2017 forward.

Today’s new proposal would include all policies in-force at any time since 1996. Of particular concern are policies that are now considered lapsed or terminated, but were in-force at the time the insured died; thus, insurance benefits could have been paid to the beneficiaries. In these cases, it is not unusual for an insurance company to deduct premiums from the cash value of a life insurance policy for years after the insured has passed away; this practice reduces the value of the policy and can sometimes completely drain all the money that was properly owed to the beneficiaries.

HB302 requires three simple steps to protect consumers.

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First, it requires insurers to evaluate policies in lapsed or terminated status since 1996 because Frerichs and supporters believe some of these policies should have been paid to survivors. The legislation also requires insurers to request updated contact information for insureds and beneficiaries, such as a telephone number, mailing address or email address. Doing so could avoid policies from going unpaid as a result of missing or mistaken contact information. The legislation also prohibits finders from charging owners a fee to recover their property from the time the property is presumed abandoned until it has been with the Treasurer’s office for at least 24 months. Finally, the proposal would provide the treasurer’s office with access to vital records maintained by the Illinois Department of Public Health to assist in reuniting unclaimed property with the rightful owners or their heirs.

In Illinois, unpaid life insurance benefits are considered unclaimed property and returning unclaimed property to owners is among the duties of the Illinois State Treasurer. Since 2011, the treasurer’s office has identified more than $550 million in death benefits that were not paid to grieving families in Illinois. The Wall Street Journal reports that nationally the figure is more than $7.4 billion. Illinois holds unclaimed property in perpetuity until the items or funds are claimed by the owner or heirs. There is more than $2 billion in unclaimed property such as life insurance benefits, forgotten bank accounts, and unclaimed rebate checks from retailers. Individuals can search a database for their name or the name of their business or non-profit at www.illinoistreasurer.gov/ICASH. Frerichs’ office never charges anyone to search the database or return unclaimed property.

Rep. Robert Martwick, D-Chicago, has agreed to sponsor HB 302. “This modest proposal builds upon the long-overdue change we passed last year,” Martwick said. “We have to be diligent and make sure that all consumers are protected, not just going forward, but everyone who bought a policy and whose loved ones need that benefit is covered.”

Intense opposition is expected. Lobbyists nearly blocked efforts that led to practical changes in 2016. Further, industry leaders opposed to the 2016 changes declined to participate in subsequent public hearings to identify ways to improve communication between insurance companies and customers. The hearings produced a report that was issued today to the General Assembly and is available at the treasurer’s website.

The hearings identified that it is common for a policy purchaser not to inform the beneficiary that the insurance policy exists; children and minor beneficiaries do not have the maturity to investigate possible life insurance policies especially if it was their single-parent who died; and adults who live a full life often encounter memory loss before they can fully share a full accounting of their assets with a trusted source.

Among those supporting today’s proposal are Citizen Action Illinois, AARP, and the NAACP. Each played a significant role in gathering information and evaluating testimony during hearings following the successful changes the Governor signed in 2016.

About the Illinois Treasurer
The Illinois Treasurer is the state’s chief investment officer and Frerichs is a Certified Public Finance Officer. He protects consumers by encouraging savings plans for college or trade school, increasing financial education among all ages, and removing barriers to a secure retirement. As the state’s Chief Investment Officer, he actively manages approximately $25 billion. The portfolio includes $13 billion in state funds, $7 billion in college savings plans and $5 billion on behalf of local and state governments. The investment approach is cautious to ensure the preservation of capital and returns $28 to the state for every $1 spent in operations. The Treasurer’s Office predates Illinois incorporation in 1818. Voters in 1848 chose to make it an elected office.

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