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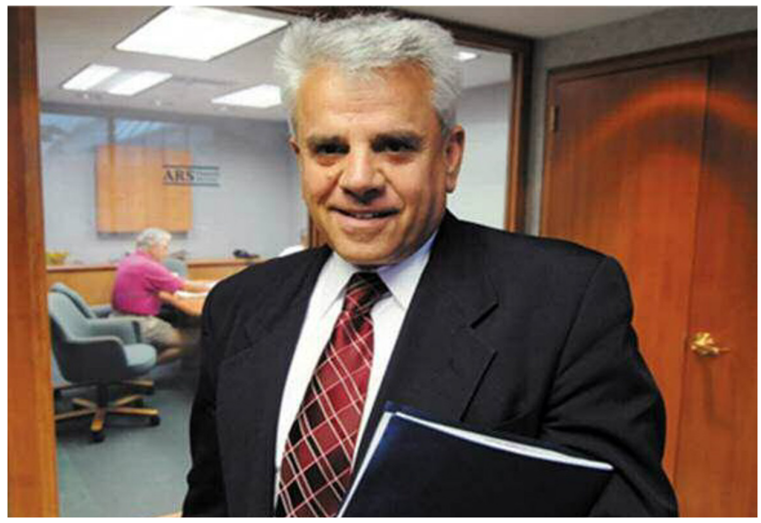
Policy against rate hikes

By: Claude Solnik October 2, 2017

Out of a concern that life insurance firms may be hiking rates excessively, the New York State Department of Financial Services has begun requiring the firms to submit proposed rate hikes roughly four months in advance contingent upon approval.


Henry Montag, CFP

The new regulation comes after years in which low interest rates have put pressure on life insurance profits, which historically have been fueled by interest rates.

And it comes after many insurers have hiked rates, frequently in double digits, sometimes leading people to cancel policies.

It's an important change to an industry that is very different from automobile and health insurance, whose rates fluctuate, often annually.

The new regulation lets the Department of Financial Services "review increases prior to implementation and ensure compliance with law," by requiring that life insurers notify the department 120 days and consumers 60 days prior to hikes in non-guaranteed elements of life insurance policies.

"This regulation is designed to protect New Yorkers from unfair and inequitable cost increases," Department of Financial Services Superintendent Maria Vullo said in a written statement.

She said some life insurance companies "significantly increased the cost of insurance on older life insurance policies due to decreased profitability," impacted by low interest rates and, in some cases, earlier deaths than projected.

The agency said the regulation was drafted "in response to concerns raised by consumer groups that some insurers have not been implementing these increases" in ways permitted by New York's insurance law.

"New York State wants four-month notice from insurance companies before they change the rates," said Steven Schwartz, vice president at Chicago-based Hub International who works in its Hauppauge office. "Now the insurance commissioner can review the rate increase and see if it complies with the law."

This is a big change from the past where rates could go up within the limits of contracts, not giving policy holders notice or protections that the state wants them to have.

"Previously the insurance commissioner may not have scrutinized those changes," Schwartz said. "Now, the Department of Financial Services is taking a pencil to all those changes and looking at it through sharper eyes."

The delay, Schwartz said, is an important element in the shift, because it gives the state a big window to evaluate hikes.

"Now they have time to go through a process with the insurance company and negotiate whether the increase is within the letter of the law," Schwartz said.

Henry Montag, president of the Toli Center East, an insurance consulting firm based in Melville, said the new rule comes at a crucial time.

“Many, not the majority yet, have taken advantage of that and decided to increase their cost of insurance,” Montag said. “One company recently raised their cost of insurance to the tune of a 60 percent increase, which at that time required no prior approvals from any regulatory body as they were within their contractual rights to do so.”

Montag said that rate hike “significantly reduced the duration of the time their insured remained covered for in their non-guaranteed life insurance” policies.

The new changes are just the latest limitations on the life insurance industry, where policy holders already have some other protections.

“Obviously, life insurance companies are not allowed to increase rates on an individual policy,” Schwartz said. “They have to do it on a class basis. They can’t indiscriminately pick out a client and say, ‘We’re going to raise your rates.’”

If it was possible to hike an individual policy holder’s rates, everyone’s rates would rise with age, since risk of death also increases.

“As everybody ages, everybody gets sicker,” Schwartz said. “If the insurance companies were able to raise the rates as people age, there would be no insurance. It’s not like car insurance where you get into two accidents and they raise your rates.”

Rates can rise for groups or classes of policy holders, such as policies written by a specific insurer during certain years.

But hiking a premium isn’t the only way to raise costs for policy-holders. Insurers can reduce or eliminate projected dividends, which has the same effect.

“That dividend is not guaranteed,” Schwartz said. “One of the ways that insurance companies can change the cost of the policy to an insured in a whole life policy is to not live up to the dividend scale they projected.”

Insurers also can say costs are rising to the maximum range they filed with the state, prompting them to hike charges to policy-holders.

“Companies want to increase policy expenses,” Schwartz said. “Their investment portfolio is doing worse than they anticipated. If insurance companies make bad investments with their premiums, they want to recoup their money by going back to the policy holders and charging them more.”

Insurers also are indicating that policies will expire sooner than expected, because expenses have risen.

“This law is trying to protect the consumer from having their insurance policy terminated before they anticipated,” Schwartz said. “Insurance companies are letting certain clients know that the projections they originally bought the policy based on are now being changed.

The insurance coverage period is being shortened. That’s very onerous to the client.”
The state’s new policy of requiring life insurers to submit and justify hikes could lead to lower hikes, even if it won’t end the increases.

“That would be very good,” Montag said. “If the insurance industry is allowed to increase something by 50 percent, now at least the Department of Financial Services will have some say in the contractual rights that a non-guaranteed policy can go through. It’s wonderful.”
Schwartz said the state’s monitoring of long-term care insurance rates helped hold down those increases.

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