Tallahassee.com

Bill Newton: Consumers deserve a choice on life insurance

Bill Newton
My View

So, you think you've planned to protect your family in case you pass away? Think again. Insurance companies have a long and sordid history of cheating their customers. Their latest scheme is perhaps their most audacious ever: They sell you life insurance knowing they will never pay your family when you die.

Barton Cotton thought he was protecting his family by obtaining a life insurance policy from the Lincoln National Life Insurance Company. Lincoln promised to pay the Cotton family $5 million when he passed away, so long as he paid the premiums, which he did. Two-and-a-half years later, tragedy struck when Mr. Cotton died of cancer. When his widow and children asked the insurer to pay the proceeds, it reneged. The insurer claimed Mr. Cotton's policy was void from the start, and it shouldn't have to pay the death benefits. To make things even worse, it also refused to give back the premiums it pocketed.

How could this happen? The insurance company insists that the policy was void because Mr. Cotton considered selling it after two years. Never mind that Florida law explicitly protected Mr. Cotton's right to sell his policy after two years. Never mind that Mr. Cotton never actually sold his policy. And never mind that the insurance company pocketed Mr. Cotton's premiums for two years. The insurer argued that a policy is void if, at the time of purchase, the policyholder so much as entertained the option of re-selling the policy to someone else, as if a single thought in Mr. Cotton's mind could strip his family of the insurance he obtained for them.

Being able to re-sell an insurance policy is important for everyone who owns a life insurance policy, including thousands of Florida families who do. A father who is the breadwinner may take out an insurance policy to provide for his children. But he may decide there are better uses of the premiums once the children grow up and can support themselves. Or he may face a terminal illness that is sapping the family account and simply cannot afford to pay the premiums anymore.

Tallahassee.com

The dirty little secret is that insurance companies make most of their money collecting premiums from policyholders they know will not keep their policies. These policyholders used to have only two options: (1) stop paying the premium, let the policy lapse, and receive nothing; or (2) sell the policy back to the insurance company, which would pay them a pittance.

In response, other buyers stepped in and offered policyholders more money for their policies. The basic approach of this "secondary life insurance market" was simple: The insured sells the policy to a buyer for more than the insurer would have paid, and the buyer then pays the premiums for as long as the insured lives and receives the insurance proceeds upon death. The insurance company doesn't lose anything. It still receives the premiums, but from someone else.

The emergence of this secondary market offered consumers far greater flexibility to use insurance in their financial plans. And Florida law affirmatively encourages the secondary market by explicitly protecting the right of policyholders to re-sell their insurance policies.

But the secondary market put money in the pockets of consumers at the expense of insurance companies. Hence the insurance companies' recent litigation antics against grieving families like the Cottons.

A proposed amendment to to HB/CS 1101 would shut down the insurers' cynical ploy to preserve profits at the expense of consumer flexibility and value. Predictably, insurers are fighting this proposal tooth and nail. They try to depict the secondary market as scoundrels "wagering" on how soon you're going to die. The only thing the secondary market does is what insurance companies refuse to do — pay full value up front and give consumers more options for financial security.

This common sense proposal elevates consumer choice and value ahead of insurance company profits. The Legislature should pass it.