

New Jersey Offers Grace Period for Insurance Premium Payments

Insurance Recovery, Litigation & Counseling Alert

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On April 9, 2020, New Jersey Governor Phil Murphy issued Executive Order 123, providing immediate relief to policyholders of property and casualty, life, health, and dental insurance for nonpayment of premiums due to the COVID-19 pandemic. The Executive Order and the ensuing directives from the Commissioner of Banking and Insurance essentially pause any policy cancellations for nonpayment of premiums during the state of emergency. The Executive Order does not cancel premiums or change any coverage provided under the policy. Instead, it gives policyholders a breather, allowing them to delay payment of premiums for the duration of the emergency grace period without fear of penalty. Policyholders thereafter can pay the missed premium payments in installments over the next year.

Citing increased unemployment and other financial hardships resulting from COVID-19 that could result in the cancellation of insurance, Executive Order 123 establishes the following grace periods for the payment of premiums for policies issued by the following types of insurance companies:

- Property and casualty insurance companies: 90 days
- Life insurance companies: 90 days
- Insurance premium finance companies: 90 days
- Health insurance companies: 60 days
- Health maintenance organizations: 60 days
- Health services corporations: 60 days
- Other health or dental plans: 60 days

The Executive Order requires insurance companies to pay claims during this period despite nonpayment of premiums.

On April 10, 2020, the Commissioner of Banking and Insurance issued seven directives (Bulletin Nos. 20-11 through 20-17) to implement the Executive Order. Licensed insurers in the identified categories must provide their insureds “who may be experiencing a financial hardship due to COVID-19” with the additional grace period, during which the insurers

- may not cancel policies for nonpayment of premiums;
- must waive late payment fees and may not report late payments to credit reporting agencies;
- must allow the premiums due but not paid during the grace period to be paid over the longer of the remaining policy period or 12 months; and

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- may not consider late payments in any future premium calculations.

For life insurance and annuity contracts, the emergency grace period also extends the time to exercise policyholder and contract holder rights and benefits.

At the election of the policyholder, the grace period either is retroactive to April 1 or begins May 1. The grace period does not apply to the initial premium due to secure coverage.

Insurers also must provide each policyholder with an “easily readable written description” of the extended grace period and ensure that policyholders have the ability to make payments through alternatives to in-person payments.

The directives clarify that insurers neither change the policy terms nor require forgiveness of the premiums due, but rather allow the policyholder that does not make required premium payments during the extended grace period to make those payments over the ensuing year.

Two of the directives, Bulletin Nos. 20-12 and 20-13, address issuers of employer insurance plans. The directives require employer plans expiring during March to be deemed eligible for renewal, relax full-time employment requirements for eligibility for continued employee coverage, and waive the applicable waiting period for coverage for employees terminated due to COVID-19 but rehired once the business resumes operations. For small businesses, the directives also require insurers to exclude business days during the state of emergency period when reviewing the number of employees in 2020 relating to 2021 renewals.

Per the Executive Order, the Commissioner can extend these emergency grace periods further “as necessary to protect the interests of policyholders, beneficiaries, and the public.”