

GROUP TERM LIFE INSURANCE STANDARDS FOR ACCELERATED DEATH BENEFITS

[Note: Industry has asked the IIPRC to advise regarding the intent of the individual ACCB standards: no reference is made to Model #620. Sixteen states have adopted the Model which became one in 1990. A regulator drafted the standards without the Model since not many states had adopted it, it was much out of date and not very clear on intent (for example, in the DISCLOSURE section some of the items are not disclosures and there is no indication of when certain information needed to be disclosed). Some of the Model requirements did not make their way into the standards because the regulators probably did not believe them to be relevant at the time. In any case, it is not clear that if a company complies with the IIPRC standards, would any of the 16 states have an issue?]

Scope: These standards apply to Accelerated Death Benefits that are built into group term life insurance certificates (“certificate(s)), or added to such certificates by rider, endorsement or amendment. These standards accommodate Accelerated Death Benefits for Employees and Dependents, referred to in these standards as “Covered Person(s)”.

Products subject to these standards shall not be described as long-term care insurance or as providing long-term care benefits. If the payment of Accelerated Death Benefit is contingent upon receipt of long-term care services or supports, these standards shall not apply and such benefit will be subject to the Interstate Insurance Product Regulation Commission standards for group long-term care insurance.

As used in these standards the following definitions apply:

“Accelerated Death Benefit” means the advance payment of some or all of the death proceeds payable under a certificate:

1. That reduces the death benefit otherwise payable under the certificate; and
2. That is payable upon the occurrence of a single Qualifying Event with respect to a Covered Person resulting in the payment of a benefit amount fixed at the time of acceleration.

“Certificateholder”, as used in these standards, means an Employee who is eligible for benefits provided by the Policyholder's policy and who has received a certificate of insurance. If, due to a Qualifying Event, the Employee is incapacitated, the term shall include the legal representative of the Employee.

“Form” means a certificate, or a rider, endorsement or amendment attached to a certificate, which provides the Accelerated Death Benefit.

“Qualifying Event” means the following:

1. A medical condition that is reasonably expected to result in a drastically limited life span for a Covered Person. The insurance company’s definition of a drastically limited life span shall have a minimum of “6 months or less” and a maximum of “24 months or less”, and shall be specified in the form;

and, at the option of the insurance company, may include one or more of the following:

2. A medical condition that requires extraordinary medical intervention, such as major organ transplant or continuous artificial life support, without which a Covered Person would die;
3. A condition that is reasonably expected to require continuous confinement in an institution and the Covered Person is expected to remain there for the rest of the Covered Person's life. The term "institution" shall be defined in the form;
4. A specified medical condition that, in the absence of extensive or extraordinary medical treatment, would result in a drastically limited life span; or
5. A chronic illness defined as permanent inability to perform, without substantial assistance from another individual, a specified number of activities of daily living (bathing, continence, dressing, eating, toileting and transferring), and/or permanent severe cognitive impairment and similar forms of dementia.

Terms in these standards that are initially capped have the meanings specified in these standards and the Interstate Insurance Product Regulation Commission standards applicable to group term life insurance policies and certificates.

ADDITIONAL SUBMISSION REQUIREMENTS

The following additional filing submission requirements shall apply:

- (1) Include a statement of any underwriting restrictions involving benefit amounts or age, and whether the benefit is intended for use with new issues and/or in force business.
- (2) Include a specimen issue of the statement required by item 1 of the Section entitled Effect of Benefit Payment on Other Benefit Provisions, provided to a Covered Person prior to or concurrent with the election of the Accelerated Death Benefit option, and an explanation of how and when the statement will be provided.
- (3) Include an actuarial memorandum prepared, dated and signed by a member of the American Academy of Actuaries who provides the following information:
 - (a) A description of the Accelerated Death Benefit, including the effects of payment of the Accelerated Death Benefit on all certificate benefits and premium payments;
 - (b) A description of and justification for expense charges associated with the Accelerated Death Benefit and the maximum expense charges;
 - (c) A description of the interest rate or interest rate methodology used in any present value calculation or in accruing interest on the amount of the Accelerated Death Benefit. The maximum interest rate shall not exceed the greater of:
 - (i) the current yield on the 90-day Treasury bills available on the date of application or accelerated payment; and

- (ii) the current maximum adjustable policy loan interest rate based on the Moody's Corporate Bond Yield Averages-Monthly Average Corporates published by Moody's Investors Service, Inc., or successor thereto, for the calendar month ending two months before the date of application for an accelerated payment. The policy loan interest rate is that which is permitted under the NAIC Model Policy Loan Interest Rate Bill, Model # 590;
- (d) A description of the mortality basis and methodology, including the period of time applicable to any mortality discount, used in any present value calculation of the Accelerated Death Benefit;
- (e) A description of the mortality and morbidity basis and methodology used in the determination of any separate premium for the Accelerated Death Benefit;
- (f) The formula used to determine the Accelerated Death Benefit, including any limitations on the amount of the benefit, and the formula used to determine the post-acceleration premium;
- (g) A sample calculation of the Accelerated Death Benefit. All certificate benefits and premium payments immediately before and immediately after acceleration must be shown in the example; and
- (h) If an Accelerated Death Benefit may be made in periodic payments, the basis used in the calculation of the minimum periodic payment for the payment period and a sample calculation of a minimum periodic payment.
- (i) For any Accelerated Death Benefit of the type described in items 2, 3, 4 and 5 of the "Qualifying Event" definition contained in these standards, a certification that the value and premium of the Accelerated Death Benefit is incidental to the group term life coverage, as per the Incidental Value and Premium/Cost of Insurance Rate Relationship Certification shown in Appendix A.

COVER PAGE OR FIRST PAGE OF BENEFIT DESCRIPTION

- (1) The cover page of the rider, endorsement or amendment, or the first page of the benefit description, if the benefit is built into the certificate, shall include the following in prominent print:
 - (a) The term "Accelerated Death Benefit" shall be included in the brief description or descriptive title of the form.
 - (b) A clear statement that the death benefit and, if applicable, premium payments will be reduced if an Accelerated Death Benefit is paid.
 - (c) A clear statement that a Covered Person should seek additional information from a Covered Person's personal tax advisor about the tax status of the Accelerated Death Benefit payment.

“Prominent print” means, for example, all capital letters, contrasting color, underlined or otherwise differentiated from the other type on the form.

FAIRNESS

- (1) The form shall not contain provisions that unfairly discriminate among insureds with differing qualifying events covered under the form, or among insureds with similar qualifying events covered under the form.

ACCELERATED DEATH BENEFIT PROVISIONS

BENEFIT AMOUNT

- (1) The form may limit the percentage or dollar amount of the certificate death benefit that may be accelerated. Any minimum and/or maximum limit shall be specified in the form.
- (2) The form shall not state that, upon acceleration of part of the certificate death benefit, a Covered Person forfeits the remainder of the certificate death benefit.
- (3) The form shall not include an aggregate limit provision that caps the Accelerated Death Benefits payable for all certificates issued by the insurance company and its subsidiaries and affiliates.
- (4) The form shall not state that the Accelerated Death Benefit will be provided only if the certificate would remain in force for a specific period of time following acceleration. However, the form may exclude from acceleration any group term life insurance coverage scheduled to reduce or terminate prior to the end of the period used to define a Qualifying Event of the type described in item 1 of the “Qualifying Event” definition contained in these standards.
- (5) The form shall not contain any restrictions on the use of the Accelerated Death Benefit proceeds.

BENEFIT CONDITIONS

- (1) The form may specify any of the following conditions that would have to be met by the Certificateholder to request payment of an Accelerated Death Benefit:
 - (a) the absence of a designation of an irrevocable beneficiary; and/or
 - (b) the absence of an assignment.

BENEFIT OPTIONS

- (1) The form shall describe the Accelerated Death Benefit option or options that are available to a Covered Person, such as the payment of all or part of the death benefit of the certificate.
- (2) The form shall describe the payment options available to a Covered Person. The description shall include the option to receive the Accelerated Death Benefit payment in a lump sum, and may include an option to receive the benefit in periodic payments. Periodic payments based on the continued survival or institutional confinement of a Covered Person are prohibited.

- (3) After an Accelerated Death Benefit is paid, the premium may either be reduced to the premium that would apply for the remaining death benefit under the certificate or the premium may remain the same, depending on how the Accelerated Death Benefit amount is calculated. The form shall state how premiums will be affected.
- (4) The insurance company may include a waiver of premium benefit for the Accelerated Death Benefit. The form shall explain any continuing premium requirements to keep the certificate in force.
- (5) If the form allows for the present value calculation, the form shall state that the insurance company may pay the owner a present value of the certificate death benefit that is being accelerated. The interest rate or interest rate methodology used in the calculation shall be disclosed in the form.

EXPENSE CHARGES FOR THE BENEFIT

- (1) The insurance company may deduct a reasonable expense charge for accelerating the death benefit and shall state the maximum expense charge in the form.
- (2) The form shall provide that if any index used in determining interest or expense charges for the Accelerated Death Benefit is discontinued, the insurance company will use an appropriate substitute index subject to the approval of the Interstate Insurance Product Regulation Commission.

PAYMENT PROCEDURES

- (1) The form shall specify the procedures required to accelerate the death benefit of the certificate.
- (2) The form may state that the insurance company has the right to require a second or third medical opinion to confirm benefit eligibility. The form shall state that the second or third medical opinions are at the insurance company's expense. The second medical opinion may include a physical examination by a physician designated by the insurance company. In the case of conflicting opinions, eligibility for the Accelerated Death Benefits shall be determined by a third medical opinion that is provided by a physician that is mutually acceptable to the Certificateholder and the insurance company;
- (3) The form shall state to whom the Accelerated Death Benefit payments will be made.
- (4) If the form allows the Certificateholder who has assigned the certificate or designated an irrevocable beneficiary to request Accelerated Death Benefit payment, the form shall state that prior to the payment of the Accelerated Death Benefit, the insurance company shall obtain from the Certificateholder a signed acknowledgement of concurrence for payout from any assignee of record or irrevocable beneficiary of record.

Note: The language of this item is intended to reflect Model #620 and Section 4. of the Legislative History which documents potential legal concerns when an assignment or irrevocable beneficiary designation is in place.

- (5) The form shall state that payment of the Accelerated Death Benefit is due immediately upon receipt of the due written proof of benefit eligibility. Insurance companies are subject to the requirements of item (f) of the Filing A Claim standards of the policy and certificate with respect to any delay in processing requests to accelerate the payment of death benefits.
- (6) If the Accelerated Death Benefit amount is paid in periodic payments, each periodic payment will reduce the death benefit in an equivalent amount and, if applicable, the premium will be adjusted accordingly.
- (7) The form shall state that if a Covered Person dies before all periodic payments of the Accelerated Death Benefit are made, the periodic payments shall cease and the remaining death benefit shall be paid pursuant to the certificate.
- (8) The form shall state that if a Covered Person dies after the Certificateholder elects to receive Accelerated Death Benefits but before any such benefits are received, the election shall be cancelled and the death benefit paid pursuant to the certificate.

EFFECT OF BENEFIT PAYMENT ON OTHER BENEFIT PROVISIONS

- (1) The form shall state that upon a request by a Certificateholder to accelerate the death benefit, the insurance company shall provide a statement to the Certificateholder and any assignee of record or irrevocable beneficiary of record demonstrating the effect of the acceleration on the death benefit and premium of the certificate involved. The statement shall disclose any premium necessary to continue any remaining coverage following the acceleration, and shall disclose all expense and interest charges associated with accelerating the death benefit. In addition, a disclosure shall be made to the Certificateholder that receipt of an Accelerated Death Benefit may affect eligibility for Title XIX of the Social Security Act (Medicaid) or other government benefits or entitlements and may have income tax consequences.
- (2) The form shall state that upon the payment of the Accelerated Death Benefit, the insurance company shall provide a statement to the Certificateholder and any assignee of record or irrevocable beneficiary of record demonstrating the effect on the death benefit, premiums, and, if applicable, expense and interest charges. In addition, a disclosure shall be made to the Certificateholder that receipt of an Accelerated Death Benefit may affect eligibility for Title XIX of the Social Security Act (Medicaid) or other government benefits or entitlements and may have income tax consequences.
- (3) The acceleration of part of an Employee's death benefit shall not impact other Dependent coverage under the group certificate, whether or not the Dependent coverage is based on a percentage of the Employee's death benefit. The acceleration of all of an Employee's death benefit will terminate the life insurance benefit under the group certificate. The form shall describe the effect of such termination on all Covered Persons. The form shall state that such termination shall not prejudice the continuation and conversion rights available under the certificate to other Covered Persons.

- (4) When a part of the death benefit remains after payment of the Accelerated Death Benefit, the accidental death benefit or accidental death and dismemberment benefit provision, if any, in the Certificate shall not be affected by the payment of the Accelerated Death Benefit.

EXCLUSIONS

- (1) The form shall not contain exclusions for an Accelerated Death Benefit that are not also exclusions for the group term life insurance in the certificate.

QUALIFYING EVENTS

- (1) The form shall specify the terms and conditions applicable to each Qualifying Event.
- (2) The form shall not require that the cause of a Qualifying Event first manifest itself or be diagnosed after issuance of the form.
- (3) The form shall not include a waiting period requirement. A requirement that the form be in force past the contestable period is prohibited.

WHEN THE ACCELERATED DEATH BENEFIT ENDS

- (1) The form shall include the following conditions under which the Accelerated Death Benefit shall end. Such benefit may end at the earliest of:
 - (a) upon written request from a Certificateholder;
 - (b) the date a Covered Person's group term life insurance coverage ends under the certificate;
 - (c) the end of the period for which the last premium has been paid for a Covered Person, in accordance with the provisions of the certificate;
 - (d) the date any required fee for the Accelerated Death Benefit is not paid, in accordance with the provisions of the form.
 - (e) the date the group term life insurance policy ends; or
 - (f) the date the person ceases to be in an eligible class under the certificate.

For item (f) above, the provision may allow the insurance company to end coverage at a specified point in time following the date the person ceases to be in an eligible class.

- (2) The form shall state that if the Accelerated Death Benefit ends, this shall not prejudice the payment of benefits for any Qualifying Event that occurred while the form was in force.

APPENDIX A

PROPOSED ACCELERATED DEATH BENEFIT (ACCDB) INCIDENTAL
VALUE AND PREMIUM/COST OF INSURANCE RATE RELATIONSHIP CERTIFICATION

I, _____ (Name) [of _____ (Insurance Company)]
[_____, (Name) a consulting actuary for _____
(Insurance Company)] am a Member of the American Academy of Actuaries and am qualified to
provide this Certification with respect to the ACCDB benefit described in the Actuarial Memorandum to
which this Certification is attached.

I certify that:

The value of the benefits provided, on an aggregated basis, in respect of the filed ACCDB, determined
according to the formula below applied over a range of underwriting classes and plans at which the
benefit is being made available, is not in any case greater than 10%.

$$\frac{(\text{NSP2} - \text{NSP1})}{\text{NSP1}}$$

Where:

NSP1 and NSP2 are determined using an effective annual interest rate of 6%.

NSP1 is the net single premium for the base term life insurance benefits assuming there is no
Accelerated Death Benefit.

NSP2 is the net single premium for the base term life insurance benefits assuming that the full death
benefit is paid at time of death or the occurrence of the non-death ACCDB trigger.

In developing the assumptions, other than the interest assumption, used in calculating NSP1 and NSP2, I
have complied with all applicable laws, regulations, and Actuarial Standards of Practice (ASOPs). The
assumptions used represent anticipated experience factors, as defined in actuarial literature and by
generally accepted actuarial practice.

The assumptions, other than the interest assumption, used in calculating NSP1 and NSP2 will be
reviewed at least annually by the Insurance Company to ensure that the value of the ACCDB provided
continues to be incidental. If, after such review and while this ACCDB is being actively issued, the
value of the benefits provided by this benefit are no longer incidental based on then current anticipated
experience factors, the Insurance Company will discontinue offering the ACCDB which is no longer
incidental.

If a separate premium is being charged for the ACCDB provided, the ratio of the present value of the
ACCDB premiums over the life of the term life insurance benefit to the present value of the certificate
premiums exclusive of any riders, does not exceed 10%. The present values are determined using an
effective annual interest rate of 6%.

Signature of Actuary

Date