DATE: **February 3, 2014**

TO: **IIPRC Product Standards Committee**

FROM: **Industry Advisory Committee**

SUBJECT: **5 Year Review: Phase 1**
Individual Accelerated Death Benefits Standards (Dated 1/28/14)
Substantive Change Items

Re: Individual Accelerated Death Benefits Standards

Page 1, Scope, 3rd Paragraph

Change "group" reference to "individual".

Page 1, Scope, Mix and Match

Change "group" reference to "individual".

Page 1, Definitions, "Form"

We previously had a definition of "Form" and we suggest that this be reinstated since the term is used in the standards and is intended to mean policies as well as riders, amendments or endorsements used to provide accelerated death benefits.

Page 2, Definitions, "Terminal Illness", Item (2)

It has been our understanding that, while the terminal illness benefit is always required to be included with any accelerated death benefits, the terminal illness benefit may be included in a separate accelerated death benefit form. In other words, if an accelerated death benefit is being provided for terminal illness and one or more other benefit triggers, the terminal illness benefit trigger may be issued as one accelerated death benefit form and the remaining benefit trigger(s) may be issued either in one additional accelerated death benefit form, or each be included in its own accelerated death benefit form.

For some companies, the terminal illness benefit uses the lien method calculation and the chronic illness triggers use the present value calculation. In addition, some companies issue terminal illness benefits without underwriting whereas the chronic illness trigger benefit is always underwritten. Accordingly, it makes perfect sense to issue separate accelerated death benefit forms to reflect these two benefits.

Accordingly, we suggest revising the first sentence to say:

"A Terminal Illness qualifying event must always be included in an accelerated death benefit, but it may be included in one accelerated death benefit form with other qualifying events, or it may be included in its own accelerated death benefit form."

Page 6, B. BENEFIT DESIGN OPTIONS, New Item (6)
Page 8, D. EXCLUSIONS/RESTRICTIONS, Item (1)

We are disappointed by the PSC response to deny our request to allow an aggregate limit and exclusions/limitations.

To date, the PSC had posed several questions and industry provided responses, and there was little or no discussion of these responses during industry's presentation. We had also advised from the date we initially submitted this 5 Year Review comment that, for some time now, when forms are filed directly with the Compacting States, an aggregate limit and exclusions/restrictions are allowed, and this fact was never challenged in a public call. So we have to presume that this is not a contested fact.

What we fail to comprehend is, why then, is it a problem to also allow aggregate limits and exclusions/restrictions in the IIPRC standards?

During the ongoing "mix and match" rule discussions there is an ongoing concern that companies are choosing to file with the Compacting States directly in lieu of filing with the IIPRC. In these two cases, there are disincentives to file with the IIPRC. And yet, while industry has suggested eliminating the disincentives, the PSC chooses to keep it.

We respectfully request why and for what reasons?

With all due respect, we need to know more about the basis for the PSC's position, beyond the statement that "The PSC is not inclined to make a substantive change ...". Including disincentives in the standards, without articulating a solid rationale for such a position, contradicts the IIPRC's mission to encourage companies to make more filings with the IIPRC. We have all worked hard in the past 10 years to provide significant incentives to file with the IIPRC, it may only take one or two disincentive to undo the incentives.

Page 7, C. EFFECT OF BENEFIT PAYMENT ON OTHER BENEFIT PROVISIONS

In ***Item (1), first sentence***, we suggest that the appropriate language should be "Compacting State".

In ***Item (1), first sentence***, we also suggest changing "follow" to say "comply" for consistency with Drafting Note at bottom of page.

Page 9, G. PAYMENT OPTIONS

Item (1)(a)

The PSC has declined to make the changes we previously recommended ("The amount of the periodic payments shall be determined without regard to the continued survival or institutional confinement of the inured."). The current language ignores the reality that if the insured dies the periodic payments will stop. Since it does not appear to us that (a) needs to be included in a form, this may be a moot point.

We seek confirmation that the PSC acknowledges that if an insured dies, it is understood that periodic payments will stop and that forms filed with the IIPRC may say this.

Re: 5 Year Review Substantive Changes

1. Grace Period "Postmarked" Issues, Pages 2-3

The PSC has asked the following questions:

1. How many companies have had to re-engineer payment processing to accommodate the postmark requirement and what is involved in that effort?

No company has advised that it has re-engineered a payment process. Companies have advised that they do have a process in place for variable products because that the SEC requires that companies keep data for premiums submitted for variable products and this is sensible because the premiums have to be posted to investment accounts within a specified period of time, such as 7 days. This is accomplished by having a separate lock box to receive such premiums and the envelopes are scanned. This is expensive to set up, operate and maintain.

What companies are doing for non-SEC variable products is to administratively allow a specified period of time, such as 10 days after the expiration of a grace period, during which the company will not lapse a policy, presuming that if indeed a premium was postmarked during the grace period, this allows adequate time for such premium to be received by the company. Other companies will lapse a policy at the expiration of a grace period but will administratively reinstate the policy without underwriting if the premium is received within a specified period after the grace period expires, and the longest period permitted appears to be 31 days. This is all handled administratively and none of this is included in the Grace Period provision.

2. How do companies accommodate lapse moratorium directives issued during disaster recovery by one or more states?

As we stated in our comment letter dated September 13, 2013, item 10 on on page 3:

"10. Companies have historically made allowances in situations where there have been regional disasters (power outages, fires, earthquakes, flooding, hurricane, tornadoes, super storms, etc.) or national crises (such as 9/11) where normal business and government operations may be suspended for some time. Companies also make allowances for late premium payments when people can prove that they had been hospitalized or otherwise prevented from receiving mail or sending it, their bank accounts are frozen, etc. We don't need standards to require this."

It should also be noted that the allowances are determined ad-hoc, and depend on the particular circumstances. Companies may also not necessarily wait for the President, Governor or other federal agency, to declare a state of emergency - companies make allowances for late premium payments when it is obvious that payments were delayed beyond the control of the policyholder.

Likewise, how do companies accommodate receiving IRA contributions postmarked by April 15?

With respect to IRA contributions, the companies do track postmarked contributions in order to comply with the requirements of the IRS Private Letter Ruling governing this issue. It should be noted that IRA contributions are ***voluntary*** and can be made at any time during the year; however, the date these are received determines the tax year for which the contribution will receive tax preferential treatment. To be considered a 2013 contribution, the contribution has to be submitted between January 1, 2013 and April 15, 2014. If a contribution is made after April 15, 2014, the contribution is still accepted, but it will be considered a contribution for 2014. If April 15th occurs on a Saturday or Sunday, the IRS extends the IRA deadline until the next Monday.

In contrast, the timely payment of a premium is a ***requirement*** under a policy to keep coverage in force, and payments are due on specified due dates, with specified grace periods for such due dates.

6. Accelerated Death Benefits – Exclusions/Restrictions
7. Accelerated Death Benefits – Aggregate Limit

We have addressed these issues in the comments above for the Accelerated Death Benefit standards.

9. Waiver of Premium

We advised from the date we initially submitted the 5 Year Review comment that, for some time now, when forms are filed directly with the Compacting States, companies are permitted to only provide the total disability benefit for total disabilities that begin before age 60. To our knowledge, this fact was never challenged in a public call. So we have to presume that this is not a contested fact.

What we fail to comprehend is, why then, is it a problem to also allow such a benefit in the IIPRC standards?

During the ongoing "mix and match" rule discussions there is an ongoing concern that companies are choosing to file with the Compacting States directly in lieu of filing with the IIPRC. In this case, and two other documented above for the Accelerated Death Benefit, there are disincentives to file with the IIPRC. And yet, while industry has suggested eliminating the disincentives, the PSC chooses to keep it.

For the first time since we made the request, we are now advised that since the PSC has not "received specific information or cases demonstrating that circumstances in the marketplace have changed since this provision was originally drafted...", the inclination is not to consider the change.

We are informed that the waiver of premium marketplace changed in the early 2000's because of the complexities in administering universal life and variable universal life products, specifically with the administration of monthly deduction charges – as well as term plans. The reason why some companies began filing and issuing only benefits for total disability beginning before age 60 only was to simplify administrative processing and reduce the manual intervention needed to process claims after age 60. What may have happened is that when we started to develop the standards in 2005-2006, the regulators included the traditional benefit and those companies offering the "before age 60 only" were not engaged in the standards development process. Just as companies were not fully engaged, neither were the regulators who had been approving these benefits – no one brought up these products at the time.

If the "before age 60 only" waiver benefit is acceptable to the Compacting States, why are they not acceptable to the IIPRC? What sense does it make to include disincentives for filing with the IIPRC and continue to argue that companies should make more filings with the IIPRC? We have all worked hard in the past 10 years to provide significant incentives to file with the IIPRC, it may only take one or two disincentive to undo the incentives.

Submitted by:

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