Request for New Uniform Standards or Changes to Uniform Standards

Pursuant to §119 of the Rule for the Adoption, Amendment and Repeal of Rules for the Interstate Insurance Product Regulation Commission

Please note that requests for changes to the Uniform Standards submitted by June 30 will be reviewed by the Product Standards Committee (PSC) and assigned a priority in accordance with their procedures and schedule. A public call will be scheduled to discuss the requests after July 1 each year. The PSC will recommend priorities for the following year to the Management Committee for their consideration.

* Required

1. Name of Person Requesting Change: *

2. Affiliation *

- ◯ Industry Advisory Committee
- ◯ Consumer Advisory Committee
- ◯ Regulator
- ◯ Legislator
- ◯ Other Interested Party

3. Contact Email *

4. Contact Phone Number *

5. Request is For *

- New Standard
- Amendment to Existing Standard

6. Section and subsection(s) of Uniform Standard if applicable:

7. Detailed description of the request, including the scope if a new Uniform Standard, and if appropriate also include proposed language consideration. *

8. Detailed explanation of the reason for the request. If a new Uniform Standard, please provide support that this type of product has been filed and approved in Compacting States. If an amendment to an existing Uniform Standards, please provide support for how circumstances or underlying assumptions (whether in regulation, in the marketplace or otherwise) have changed. *

9. Is this change currently accepted in Compact states? *

- ◯ Accepted in All Compact Member States
- ◯ Accepted in Most Compact Member States
- ◯ Not Accepted in Compact Member States
- ◯ Unknown

10. If accepted in the majority of Compact states, indicate states that do not permit this provision.

11. Would this change conflict with any NAIC Model laws or regulations? *

- ◯ Yes
- ◯ No
- ◯ Unknown

12. If yes, identify NAIC Model Law or Regulation.

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IIPRC-DI-I-H11-DBO
INDIVIDUAL DISABILITY BUY-SELL
INSURANCE POLICY STANDARDS

1. Date Adopted:

2. Purpose and Scope: The *Individual Disability Buy-Sell Insurance Policy Standards* apply to individual *Disability Buy-Sell* insurance policies that are individually underwritten, including policies that are marketed through employer and association groups ("multi-life" plans).

3. Statutory Authority: Among the IIPRC's primary purposes and powers is to establish reasonable uniform standards for the insurance products covered in the Interstate Insurance Product Regulation Compact ('Compact"), specifically pursuant to Article I §2, Article IV §2 and Article VII §1 of the Compact, as enacted into law by each IIPRC member state.

4. Required Findings: None.

5. Effective Date: TBD

INDIVIDUAL DISABILITY BUY-SELL INSURANCE POLICY STANDARDS

Table of Contents

Provision/Section **Page**

SCOPE 1
§ 1. ADDITIONAL FILING SUBMISSION REQUIREMENTS 1
A. GENERAL 1
B. ACTUARIAL SUBMISSION REQUIREMENTS 2
C. VARIABILITY OF INFORMATION 2
D. READABILITY REQUIREMENTS 3
§ 2. GENERAL FORM REQUIREMENTS 3
A. COVER PAGE 3
B. SPECIFICATIONS PAGE 4
C. FAIRNESS 5
§ 3. POLICY PROVISIONS 5
A. AMENDMENTS, RIDERS AND ENDORSEMENTS 5
B. DEFINITIONS AND CONCEPTS 6
C. REQUIRED PROVISIONS 11
D. OPTIONAL PROVISIONS 18
E. PERMISSIBLE LIMITATION OR EXCLUSION BASED ON THE UNDERWRITING PROCESS FOR EACH PROPOSED INSURED 21
F. PERMISSIBLE LIMITATIONS OR EXCLUSIONS 21
G. PROHIBITED LIMITATIONS AND EXCLUSIONS 25
H. BENEFIT PROVISIONS 25
§ 4. ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES 27
A. MEMBERSHIP 27
B. MAINTENANCE OF SOLVENCY 27
Appendix A 28
Appendix B 30

INDIVIDUAL DISABILITY BUY-SELL INSURANCE POLICY STANDARDS

Scope: These standards shall apply to individual *Disability Buy-Sell* insurance policies that are individually underwritten, including policies that are marketed through employer and association groups ("multi-life" plans).

Separate additional standards will apply for:

- disability income plans;
- overhead expense plans; and
- key-person plans.

Consult the Interstate Insurance Product Regulation Commission website to determine when these additional standards are available for filing.

Mix and Match: These standards are not available to be used in combination with State Product Components as described in Section 111(b) of the Operating Procedure for the Filing and Approval of Product Filings, except that these standards are available to be used in combination with state-approved individual life insurance policies and annuity contracts, provided that the disability income rider and all the components associated with the disability income rider, e.g. application and rates, are filed and approved in accordance with the applicable uniform standards.

Self-Certification: These standards are not available to be filed using the *Rule for the Self-Certification of Product Components Filed with the Interstate Insurance Product Regulation Commission*.

Drafting Note 1: References to "policy" or "plan" do not preclude Fraternal Benefit Societies from substituting "certificate" in their forms.

Drafting Note 2: Any reference to "policy" in these standards shall not include a group policy or a group certificate because these standards only apply to individual forms.

Drafting Note 3: Unless otherwise stated, all terms used in these standards shall have the same meaning as defined in the Standards for Individual Disability Income Insurance Policies

§ 1. ADDITIONAL FILING SUBMISSION REQUIREMENTS

A. GENERAL

The following additional filing submission requirements apply:

(1) For new policy filings, the filing shall indicate the respective application, the outline of coverage, and the rate schedules to be used with the policy.

(2) All forms filed for approval shall be included with the filing.

(3) Subsequent *Disability Buy-Sell* insurance filings submitted for approval shall include only those forms being submitted for approval and should specify any other forms previously approved by the Interstate Insurance Product Regulation Commission that will be used with the subsequently filed form(s). Changes to a previously approved form shall be highlighted.

(4) The specifications page of the policy shall be completed with hypothetical data that is realistic and consistent with the other contents of the policy and any required actuarial filings.

(5) If the filing contains variable items, include a Statement of Variability that presents reasonable and realistic ranges for each item. The filing shall also include a certification that any change or modification to a variable item shall be administered in accordance with the requirements of the Variability of Information section, including any requirements for prior approval of a change or modification.

(6) Include a certification signed by a company officer that the policy has a minimum Flesch Score of 50.

(7) If the filing is being submitted on behalf of the company, include a letter or other document authorizing the firm to file on behalf of the company shall be included with the filing.

(8) If the filing contains an insert page, include an explanation of when the insert page will be used.

(9) Include a description of any innovative or unique features of each policy form.

B. ACTUARIAL SUBMISSION REQUIREMENTS

(1) Include the information required by the initial rate filing standards of the Interstate Insurance Product Regulation Commission.

C. VARIABILITY OF INFORMATION

(1) The company may identify items that will be considered variable. The items shall be bracketed or otherwise marked to denote variability. Variability shall be limited to benefit data applicable to the *Owner(s)* or Insured, *Disability Buy-Sell* benefit, amounts, durations, and premium information. Variability shall also include the limitations and exclusions that are required to comply with applicable law in the state where the policy is delivered or issued for delivery under Section 3.F. (4), (11) and (12). The filing shall include a Statement of Variability that will discuss the conditions under which each variable item may change as well as the alternative content to which the item may change.

(2) Any change or modification shall be limited to only new issues of the policy and shall not apply to in force policies.

(3) A change in any variable outside of the conditions discussed in the Statement of Variability requires prior approval.

(4) Notwithstanding Paragraph (1) above, items such as the insurance department address and telephone number, company address and telephone number, officer titles and signatures of officers located in other areas of the policy may be denoted as variable and changed without notice or prior approval.

D. READABILITY REQUIREMENTS

(1) The policy text shall achieve a minimum score of 50 on the Flesch reading ease test or an equivalent score on any other approved comparable reading test. See Appendix A for Flesch methodology.

(2) The policy shall be presented, except for specification pages, schedules and tables, in not less than ten point type, one point leaded.

(3) The style, arrangement and overall appearance of the policy shall give no undue prominence to any portion of the text of the policy or to any endorsements or riders.

(4) The policy shall contain a table of contents or an index of the principal sections of the policy, if the policy has more than 3,000 words printed on three or fewer pages of text or if the policy has more than three pages regardless of the number of words.

§ 2. GENERAL FORM REQUIREMENTS

A. COVER PAGE

(1) The full corporate name, including city and state of the insuring company shall appear in prominent print on the cover page of the policy. "Prominent print" means, for example, all capital letters, contrasting color, underlining or otherwise differentiating from the other type on the form.

(2) A marketing name or logo may also be used on the cover page of the policy provided that the marketing name or logo does not mislead as to the identity of the insuring company.

(3) The company's complete mailing address for the home office or other office that will administer the policy shall appear on the cover page of the policy. The cover page of the policy shall include a telephone number of the company and, if available, some method of Internet communication. The telephone number of the insurance department of the state where the policy is delivered or issued for delivery is also required on either the cover page or the first specifications page.

(4) Two signatures of company officers shall appear on the cover page of the policy.

(5) A Right to Examine Policy provision shall appear on the cover page of the policy or be visible without opening the policy

(6) A form identification number shall appear at the bottom of the form in the lower left hand corner of the form. The form number shall be adequate to distinguish the form from all others used by the company. The form number shall include a prefix of ICCxx (where xx represents the appropriate year the form was submitted for filing) to indicate it has been approved by the Interstate Insurance Product Regulation Commission.

(7) A brief description shall appear in prominent print on the cover page of the policy or is visible without opening the policy. The brief description shall contain at least the following information:

(a) A statement that *Disability Buy-Sell* coverage is being provided;

(b) A statement as to whether the policy is *Conditionally Renewable; Continuable with Guaranteed Premiums; Guaranteed Renewable* or *Noncancellable*;

(c) A conspicuous statement as follows: *Preexisting Condition* limitations or exclusions and other limitations or exclusions may apply. Please read your policy carefully;

(d) A statement as to any benefit limits or reductions due to the Insured's attainment of certain ages; and

(e) A statement as to whether the policy is *Participating* or *Non-Participating*.

B. SPECIFICATIONS PAGE

(1) The specifications page shall include the *Disability Buy-Sell* benefits, amounts, durations, premium information, and any other benefit data applicable to the *Owner(s)* or Insured. Any policy fee shall be identified.

(2) If rates are scheduled to increase due to the attainment of certain ages by the Insured or due to the duration of the policy, the specifications page shall include an applicable schedule of rates. For a policy issued on a non-cancellable basis that subsequently changes to *Conditionally Renewable* at a specified age, the specifications page that is initially provided shall include only the schedule of rates that initially applies.

(3) If the rates included on the current specifications page are subsequently changed, a revised specifications page shall be issued for the policy.

(4) If the policy is a *Participating* policy, the specifications page shall indicate that the dividends are not guaranteed. In addition, if the company does not intend to credit dividends, then the specifications page shall state that dividends are not expected or anticipated to be paid.

(5) If benefits are scheduled to decrease due to the attainment of certain ages by the Insured or due to the duration of the policy, the specifications page or within the policy specifications, shall include an applicable schedule of benefits.

C. FAIRNESS

(1) The policy shall not contain inconsistent, ambiguous, unfair, inequitable or misleading clauses, provisions that are against public policy as determined by the Interstate Insurance Product Regulation Commission, or contain exceptions and conditions that unreasonably affect the risk purported to be assumed in the general coverage of the policy.

§ 3. POLICY PROVISIONS

A. AMENDMENTS, RIDERS AND ENDORSEMENTS

(1) Except for amendments, riders or endorsements by which the company effectuates a request made in writing by the *Owner(s)* under an individual *Disability Buy-Sell* insurance policy, all amendments, riders or endorsements added to an individual *Disability Buy-Sell* insurance policy on or after its date of issue or at reinstatement or renewal that reduce or eliminate benefits or coverage in the policy shall require signed acceptance by the *Owner(s)*, except if the decreased benefits or coverage are required by applicable law. After the date of policy issue, any amendment, rider or endorsement which increases benefits or coverage with a concomitant increase in premium during the policy term shall be agreed to in writing signed by the *Owner(s)*, except if the increased benefits or coverage are required by applicable law. Where a separate additional premium is charged for benefits provided in connection with amendments, riders or endorsements, the premium charge shall be set forth in the policy, amendment, rider or endorsement.

(2) The policy may permit the company to make unilateral changes in the policy if a change or clarification in applicable law officially compels the company to make such changes to an in- force policy. In such case, the policy shall provide that the company shall make unilateral changes to the minimum extent required to comply with applicable law. The policy shall also provide for timely notification before the change becomes effective (no less than 30 days unless the change or clarification in applicable law officially compels the company to use a shorter time period) and a statement that the company will provide the effective date of the change to the *Owner(s)*.

Drafting Note 1: Terms and conditions stated in certain policies (often in policy renewal provisions) eliminate or curtail the company's right to make unilateral changes to the language and/or premium rates of in-force policies either for the entire time the policy is in force or for stated time periods while the policy is in force. These limitations placed upon the company in the policy terms and conditions are

marketed by the company as safeguards for an Insured from any possible adverse unilateral company changes to in-force coverage. The intent of Paragraph (2) above is to clarify the ability of the company to make only required and necessary unilateral changes to any in-force policy only when the company is compelled to do so due to a change or clarification in applicable law.

Drafting Note 2: These standards are modified, as required or permitted by law, to enable fraternals to implement their respective articles and bylaws. See Appendix B.

B. DEFINITIONS AND CONCEPTS

The policy shall define certain terms or describe concepts that, as used in the policy, will have specific meanings. If the policy contains the terms or describes the concepts set forth below, the definitions of the terms or descriptions of the concepts shall be consistent with the standards set forth below. The actual terms or concepts may vary as long as the language used to define the actual terms or describe the concepts is consistent with the standards set forth below. The terms may be defined or concepts described in a definitions section of the policy, or the terms may be defined or concepts described in a policy provision that is a logical place for the definitions or concept descriptions.

(1) "***Active Full-Time Work***" or "***Active Full-Time Basis***" means that the Insured spends at least a specified number of hours a week, such as 30 hours, working in their *Occupation*. The policy may also require that the Insured be working the specified number of hours a week in their *Occupation* for the *Business*.

(2) "***Activities of Daily Living (ADL's)***" means at least bathing, continence, dressing, eating, toileting and transferring.

(3) "***Aggregate Benefit Amount***" means, subject to satisfaction of all policy terms and conditions by the Insured, the maximum amount of benefit that the policy may pay, either in a lump sum and/or divided into monthly installments, as described in the policy specification page.

(4) "***Beneficiary***" means the person or persons designated as such in the application. If the policy will include benefits for which a *Beneficiary* may be designated, the policy shall contain a *Beneficiary* provision. The provision shall state that, unless the *Owner(s)* designates an irrevocable *Beneficiary,* the right to change the *Beneficiary* is reserved to the *Owner(s)*, and the consent of the *Beneficiary* shall not be required to:

(a) Terminate or assign the policy;

(b) Change the *Beneficiary*; or

(c) Make any other changes in the policy.

The company has the option not to permit the designation of an irrevocable *Beneficiary.*

(5) "***Benefit Factor/Benefit Period***" means, subject to satisfaction of all policy terms and conditions, the length of time or number of periodic payments for which a periodic *Disability Buy-Sell* benefit may be paid. If there is a maximum *Benefit Factor/Benefit Period*, the maximum shall be stated in the policy.

(6) "***Benefit Payment Methods***" means the methods of benefit payments are:
(a) Monthly payment means the maximum monthly amount payable for any *Total Disability* after satisfying the *Elimination Period.*
(b) Lump sum payment means the maximum lump sum amount payable for any *Total Disability* after satisfying the *Elimination Period*.
(c) Combination payment means a combination of the monthly payment and lump payment methods.

(7) "***Business/Company***" means the business or professional entity(ies) in which the Insured may have an ownership interest, as named in the application, or any other business or professional entity in which the Insured develops an ownership interest after becoming Insured under the policy, if the policy provides for such coverage.

(8) ***"Buy-sell Agreement"*** – means the written agreement between the Insured and the *Owner(s)* establishing the purchase of the Insured's entire ownership interest in the *Business/Company* in the event of the Insured's *Total Disability*.

(9) "***Concurrent Disability***" means one continuous period of *Disability* that is caused or is continued by more than one *Injury* or *Sickness*. Benefits for a *Concurrent Disability* will be paid as if the *Concurrent Disability* was caused by one *Injury* or one *Sickness*. In no event will an Insured be considered to have more than one continuous period of *Disability* at the same time.

(10) ***"Conditionally Renewable"*** means that renewal of the policy is based on certain conditions, which shall be clearly described in the policy. A company may decline to renew on the basis of class, geographic area or for stated reasons other than the deterioration of the Insured's health.

(11) ***"Continuable with Guaranteed Premiums"*** means this policy may be terminated only as stated in the termination provision and premiums are guaranteed.

(12) "***Death Benefits***" means, subject to satisfaction of all policy terms and conditions by the Insured, the benefit to be paid due to the death of the Insured resulting from an *Injury* and/or *Sickness*.

(13) "***Disability***" or "***Disabled***" means that due to *Injury* or *Sickness*, the Insured meets the definition of *Total Disability*, or the Insured meets other *Disability* benefit triggers specified in the policy. Other *Disability* benefit triggers may include:

(a) The Insured is terminally ill with a life expectancy of twelve (12) months or less, as certified by a *Physician*;

(b) The Insured is unable to perform a specified number of *Activities of Daily Living*. The insurance company shall not require this benefit trigger to require the inability to perform more than two *Activities of Daily Living;*

(c) The Insured is cognitively impaired, suffering significant and irreversible deterioration or loss of intellectual capacity, as measured by clinical evidence and standardized tests commonly accepted for use in the medical community.

(d) The Insured is confined as an inpatient in a skilled nursing home or *Rehabilitation* facility where a daily room and board charge is made;

(e) The Insured is receiving home health care or hospice care;

(f) The Insured is a risk for transmitting a contagious disease and the ability to perform the *Substantial and Material Duties* of the Insured's *Occupation* is restricted by a state licensing board or by another appropriate government authority because the risk of transmission of a contagious disease to others with whom the Insured may be in contact.

(14) "***Elimination Period***" means, subject to satisfaction of all policy terms and conditions by the Insured, the length of time an Insured shall wait before *Disability Buy-Sell* benefit amounts are payable under the policy. Benefit amounts may or may not accrue during the *Elimination Period* at the option of the company. The length of time required to satisfy the *Elimination Period* may, but need not consist of, consecutive units of time. The trigger for the start of the *Elimination Period* shall be commencement of *Disability* for the Insured as defined in the policy. The definition or concept may specify a separate *Elimination Period* for *Injury* and a separate *Elimination Period* for *Sickness***.**

(15) ***"Fair Market Value"*** – means the price the business/company would sell for under normal market conditions as of the date the *Insured* is *Totally Disabled*. The value may be determined by an independent certified public accountant applying mutually acceptable business valuation techniques, or by a pre-set formula contained in the policy or both.

(16) "***Guaranteed Renewable***" means that the *Owner(s)* has the right to continue the policy in force by the timely payment of premiums set forth in the policy until at least the Insured's age 65, or as an alternative, until receipt of retirement benefits by the Insured under the Social Security Act of the United States. During such period, the company shall not unilaterally make any change in any provision of the policy while the policy is in force, except that the company may make changes in premium rates by classes. This policy may also become *Conditionally Renewable* after the Insured's age 65 at the option of the company.

Drafting Note: See also Amendments section for renewal provision language that may be added at company discretion concerning changes or clarification in applicable law.

(17) "***Hospital***" means an institution that is licensed as a *Hospital* by the proper authority of the state in which it is located. The term does not include any institution, or part thereof, that is used primarily as a clinic, convalescent home, rest home, home for the aged, nursing home, and facilities primarily affording custodial, educational or rehabilitative care.

(18) "***Injury***" means bodily injury resulting from an accident, independent of disease or bodily injury, that occurs on or after the policy effective date and while the policy is in force. The company may indicate that the *Injury* shall be sustained independent of *Sickness*. The definition or concept shall not use words such as "external, violent, visible wounds" or similar words of characterization or description. The definition or concept shall state that the *Disability* shall have occurred within a specified period of time (not less than thirty (30) days) of the *Injury*, otherwise the condition shall be considered a *Sickness*.

(19) "***Insured***" means the person named as the *Insured* on the application

(20) "***Maximum Benefit Amount***" means the amount payable to the *Owner(s)*. This amount is the lesser of the *Aggregate Benefit Amount* stated in the policy specifications; and *Fair Market Value*; and *Purchase Price*.

(21) "***Mental or Nervous Disorder***" shall be no more restrictive than those classified in the Diagnostic and Statistical Manual of Mental Disorders (DSM), published by the American Psychiatric Association (APA), most current version as of the start of a *Disability*. If the DSM is replaced by the APA, these disorders will be those classified in the diagnostic manual then in use by the APA as of the start of a *Disability*. At the discretion of the company, the definition or concept may refer to: 1. disorders listed in the DSM, or 2. only certain disorders listed in the DSM. If the APA no longer publishes a diagnostic manual or the APA ceases to exist, the company may substitute a comparable diagnostic manual subject to approval by the Interstate Insurance Product Regulation Commission before use of the comparable diagnostic manual.

Drafting Note: The company shall have the ability to exclude certain DSM disorders from the definition or concept. Inclusion or exclusion of DSM disorders may expand or restrict coverage for the Insured. When inclusion or exclusion of DSM disorders restricts coverage, such restrictions shall be consistent with the Interstate Insurance Product Regulation Commission standards for the exclusions and limitations sections of the policy.

(22) "***Noncancellable***" means that the *Owner(s)* has the right to continue the policy in force by the timely payment of premiums set forth in the policy until at least the Insured's age 65, or as an alternative, until the Insured's receipt of retirement benefits under the Social Security Act of the United States. During this period, the company shall not unilaterally make any change in any provision of the policy (including premium rates) while the policy is in force. This policy may also become *Conditionally Renewable* after the Insured's age 65 at the option of the company.

Drafting Note: See also Amendments section for renewal provision language that may be added at company discretion concerning changes or clarification in applicable law.

(23) "***Non-Participating***" means that the company does not allocate divisible surplus to the policy and, therefore the *Owner(s)* does not share in the divisible surplus of the company.

(24) "***Occupation***" means a position or professional calling for which a person receives or can receive remuneration from the *Business/Company*.

(25) "***Owner(s)***" means the person or *Business/Company* named as the *Owner(s)* on the application or a later written request for change of ownership which is approved by the company.

(26) ***"Participating"*** means that the company may allocate divisible surplus to the policy and, if it does so, the *Owner* may share in the divisible surplus of the insurance company.

(27) ***"Physician"*** means a person legally licensed to practice medicine or psychology and acting within the scope of his or her license, or a health care practitioner who is legally licensed, and is acting within the scope of his or her license, to treat an *Injury* or *Sickness* causing *Disability*. The definition or concept may exclude the Insured, the *Owner(s)*, the assignee, any person related to the Insured, *Owner(s)* or assignee by blood or marriage, any person who shares a significant business interest with the Insured, *Owner(s)* or assignee, or any person who is a partner in a legally sanctioned domestic partnership or civil union with the Insured, *Owner(s)* or assignee.

(28) ***"Preexisting Condition"*** means a condition for which symptoms existed that would cause an ordinarily prudent person to seek diagnosis, care or treatment within a one-year period preceding the effective date of the coverage of the Insured, or for which medical advice, diagnostic testing, or treatment was recommended by a *Physician* or received from a *Physician,* or for which a qualified health professional prescribed drugs or medications within a two-year period preceding the effective date of the coverage of the Insured. The term "coverage of the Insured" as used in this definition or concept refers to initial coverage amounts when a policy is first issued, and it may, at company discretion, also refer to coverage increase amounts which are issued after the policy is first made effective when those coverage increase amounts are subject to evidence of medical insurability. In the case of coverage increase amounts subject to evidence of medical insurability, the time periods in this definition or concept run anew from the effective dates of the increased coverage amounts and apply anew only to the coverage increases.

(29) "***Purchase Price***" means the amount the *Insured* is to be paid for their ownership interest in the *Business/Company* if they become *Disabled. This amount may also include other fees incurred in execution of the Buy-Sell Agreement.*

(30) "***Recurrent Disability***" means a *Disability* that occurs within a specified period of time immediately following a prior period of *Disability* and which is due to the same or related cause applicable to the prior period of *Disability*. The specified period of time used to determine whether a subsequent period of *Disability* is a continuation of a prior period of *Disability* cannot exceed 180 days.

(31) "**Rehabilitation**" a program of receiving services that is geared toward aiding an Insured to better perform the *Occupation*. Some services of a *Rehabilitation* program may include, but are not limited to: (a) coordination of physical *Rehabilitation* and medical services, (b) financial and business planning, (c) vocational evaluation and transferable skills analysis, (d) career counseling and retraining, (e) labor market surveys and job placement services, and (f) evaluation of necessary worksite modifications and adaptive equipment. Participation in a training or *Rehabilitation* program shall be completely voluntary on the part of an Insured and nonparticipation in a program shall not affect the company's determination of whether an Insured is *Disabled*.

(32) "***Sickness***" means illness, disease or complications of pregnancy that first manifests itself on or after the effective date of the policy and while the policy is in force. The requirement that the *Sickness* "first manifest itself" shall not override the provision entitled **Time Limit for Certain Defenses Other Than Misstatements in the Application**.

(a) *Disability* benefits for pregnancy will be paid on the same basis as for *Sickness*.

(b) The company shall accept a *Physician*'s diagnosis of complications of pregnancy.

Drafting Note: This Definition or Concept is expressed as a benefit trigger. In lieu of the phrase "first manifests itself" the phrase "is diagnosed or treated" may be used. See Permissible Limitations or Exclusions section, *Preexisting Conditions* for how the meaning of the Definition or Concept *Sickness* interrelates with the meaning of the Definition or Concept *Preexisting Condition* and permissible *Preexisting Condition* time limitations on benefits on or after the policy effective date. This Definition or Concept may interrelate with other policy provisions, riders, amendments or endorsements.

(33) "***Substantial and Material Duties"*** means the important tasks, functions and operations generally required for an *Occupation* that cannot be reasonably omitted or modified. This term may include an *Insured's* ability to work on a regular work schedule for a specified number of hours.

(34) "***Total Disability***" means a definition of *Disability* no more restrictive than indicating that an Insured is unable to perform the *Substantial and Material Duties* of the *Occupation*.

(a) A company may require care by a *Physician*. If it can be shown that the Insured has reached his or her maximum point of recovery, yet is still *Disabled* under the terms of the policy, the regular care and attendance of a *Physician* on a regular basis is not required.
(b) The policy may require the *Insured* is not working in any other occupation for the *Business/Company*.
(c) The policy may allow the *Insured* to work in another occupation for the *Business/Company*, but is *Disabled* from their *Occupation*.
(d) The policy may require a minimum loss of income

C. REQUIRED PROVISIONS

Each policy shall contain all of the provisions as set forth below. The company may, at its option, substitute for one or more of the provisions below corresponding provisions of different wording approved by the Interstate Insurance Product Regulation Commission as not less favorable in any respect to the Insured and/or *Owner(s)*.

(1) **Benefit Payment Methods.** The methods and amounts of benefit payments will be displayed on the specification page.

Any amount paid will be equal to or less than the actual *Purchase Price* or the policies benefit amount but not to exceed the *Aggregate Benefit Amount*.

(2) **Claim Forms.** The policy shall include a provision obligating the company to furnish a claimant with claim forms. Upon receipt of a notice of claim, the company will furnish to the claimant forms usually furnished by the company for filing proofs of loss. If the forms are not furnished by the company within fifteen (15) days after the giving of such notice, the claimant shall be deemed to have complied with the requirements of the policy as to proof of loss when the claimant submits written proof covering the occurrence, character and extent of the loss for which claim is made within the time stated in the policy for filing proofs of loss.

(3) **Conformity with Interstate Insurance Product Regulation Commission Standards.** The policy shall state that it was approved under the authority of the Interstate Insurance Product Regulation Commission and issued under the Commission standards. The policy shall also state that any provision of the policy that on the provision's effective date is in conflict with the applicable Interstate Insurance Product Regulation Commission standards for this product type in effect as of the provision's effective date of Commission contract approval is hereby amended to conform to the applicable Interstate Insurance Product Regulation Commission standards in effect as of the provision's effective date of Commission policy approval.

(4) **Eligibility.** The policy shall include provisions addressing any conditions of eligibility that may apply on or after the effective date of the policy.

(5) **Entire Contract.** The policy shall include a provision regarding what constitutes the entire contract between the company and the *Owner(s)*. No document may be included by reference. This provision shall also state that no change in the policy shall be valid until approved by an executive officer of the company, and such approval needs to be endorsed or attached to the policy for the approved change to be binding on the *Owner(s)*.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternals to implement their respective articles and bylaws. See Appendix B.

(6) **Evidence of Insurability.** If the policy requires evidence of insurability on or after the effective date of the policy, the policy shall explain those conditions, which may include, but not be limited to, medical, financial and occupational requirements, as applicable. Evidence of insurability shall not be required for eligibility for benefits under in-force coverage. The company may not use medical evidence of insurability on or after the effective date of the policy to affect renewal of an in-force policy. Except as provided in the Change of *Occupation* provision if included, the company may not use evidence of insurability on or after the effective date of the policy to transfer an Insured to a less favorable underwriting class.

(7) **Grace Period.**

(a) The policy shall include a grace period provision and describe the conditions of the provision.

(b) A grace period shall be provided for the payment of any premium due except for the first, as follows:

(i) For premiums paid on a weekly basis, at least seven (7) days;

(ii) For premiums paid on a monthly basis, at least ten (10) days; and

(iii) For all other premium modes, at least thirty-one (31) days.

(c) The coverage shall continue in force during the grace period. However, if premium is not paid by the end of the grace period, coverage will automatically end on the date of the last period for which premium was paid.

(d) In a policy which the company reserves the right to refuse renewal, the grace period provision shall state that the *Owner(s)* has a grace period unless, not less than 30 days prior to the renewal date, the company has delivered to the *Owner(s)* (or sent by first class mail to the *Owner(s)*) written notice of the company's intent not to renew the policy beyond the period for which premium has been accepted by the company. The provision shall state that the company may refuse renewal of the policy, only as of the renewal date occurring on, or nearest the policy's first anniversary, or as of an anniversary of such renewal date, or at the option of the company, as of the renewal date occurring on or nearest the anniversary of the policy's date of last reinstatement.

(8) **Legal Actions.** The policy shall include a provision stating that no action at law or in equity shall be brought to recover on the policy prior to the expiration of sixty days after written proof of loss has been furnished in accordance with the requirements of the policy. The policy shall also state that no such action shall be brought after the expiration of three years after the time written proof of loss is required to be furnished.

(9) **Misstatements in the Application.** The policy shall include one of the following provisions:

(a) **Incontestable.** At the discretion of the company, a policy which the *Owner(s)* has the right to continue in force subject to its terms by timely premium payments until at least the Insured's age 50 (or for at least five (5) years in the case of a policy issued after the Insured's age 44) may include an Incontestable provision in lieu of the Time Limit for Certain Defenses provision. This Incontestable provision, if used by the company, shall state that, after the initial coverage or subsequent increases in coverage has been in force for a period of two years during the lifetime of the Insured, the coverage shall become incontestable as to statements made in the application. The company may add a phrase to this Incontestable clause giving the company the right to toll the running of the two-year period during any period when the Insured is disabled.

(b) **Time Limit for Certain Defenses.** The policy may include this provision stating that, after two (2) years from the date of issue of the initial coverage or subsequent increases in coverage, no misstatements by the Insured in his or her application for insurance shall be used by the company to void the policy or deny a claim for loss incurred or disability* commencing after the expiration of such two-year period. The two-year period shall not apply to fraudulent misstatements made by the applicant.

Drafting Note: This provision is not using the terms "*Disability*" or "*Disabled*" as defined in the definitions or concepts section and purposely uses a small "d." This is necessary so that losses incurred or disabilities commencing on or after the coverage effective date which are: (a) due to *Injury* or *Sickness* and are not *Preexisting Condition*s (i.e. meet the requirements for *Disability* or *Disabled*), or (b) due to conditions disclosed in the application, but the company takes no express underwriting action for those conditions, are included within the parameters of these standards for this specific provision dealing with application misstatements.

(10) **Notice of Claim.** The policy shall include a provision for notice of claim. Such a provision shall state that written notice of claim shall be given to the company within twenty (20) days after the occurrence or commencement of any loss covered by the policy or as soon thereafter as reasonably possible. Notice given by the *Owner(s)* to the company at an office designated by the company or to any authorized agent of the company shall be deemed notice to the company.

In a policy providing a monthly benefit which may be paid for at least two years, the provision may state that the *Owner(s)* shall, at least once in every six (6) months after having given notice of claim, give to the company notice of continuance of disability, except in the event of legal incapacity of the *Owner(s)*. In calculating the six (6) months noted in the preceding sentence, the period of six (6) months following any filing of proof by the *Owner(s)* or any payment by the company on account of such claim or any denial of liability in whole or part by the company shall be excluded in applying the provision. Delay in the giving of such notice stated in this provision shall not impair the *Owner(s)* or assignee's right to any indemnity which would otherwise have accrued during the period of six (6) months preceding the date on which such notice is actually given by the *Owner(s)* .

(11) **Participation.** If the policy is *Participating*, the conditions of the participation shall be included in the policy.

(12) **Payment of Claims.** The policy shall include a provision stating to whom benefits shall be paid and the terms and conditions for the payment under the policy

(13) **Payment of Premium.** The policy shall include a provision describing the terms and conditions for the payment of premiums. The policy shall provide for payment of the initial premium on or before the policy effective date. A refund of unearned premium shall be made in the event of death or at the *Owner(s)*'s request to discontinue coverage.

Drafting Note: This provision should not be construed to abrogate any rights which an applicant has under a conditional receipt, interim insurance agreement or other similar form issued by the company when the company or its agent accepts initial premium for coverage at time of application.

(14) **Physical Examinations and Autopsy.** The policy shall include a provision stating that the company, at its expense, shall have the right and opportunity to examine the person of the Insured when and as often as it may reasonably require for the duration of a claim under the policy and to make an autopsy, at its expense, in case of death where it is permitted by law.

(15) **Proofs of Loss.** The policy shall include a provision describing how to submit proofs of loss.

This provision shall state that written proof of loss shall be furnished to the company at an office address specifically identified by the company in the policy.

(a) In the case of claims for loss for which the policy provides any monthly payment contingent upon continuing loss, written proof of loss shall be furnished to the company within ninety (90) days after termination of the period for which the company is liable.

(b) In the case of claims for loss other than loss for which the policy provides any periodic payment contingent upon continuing loss, written proof of loss shall be furnished to the company within ninety (90) days after the date of loss.

(c) Failure to furnish proof of loss within the time required shall not invalidate nor reduce any claim if it was not reasonably possible to give proof within such time, provided such proof is furnished as soon as reasonably possible and in no event, except in the absence of legal capacity of the Insured, later than one year from the time proof is otherwise required.

(16) **Reinstatement.** The policy shall include a reinstatement provision describing the company procedures when a renewal premium is not timely paid by an *Owner(s)*.

(a) When the *Owner(s)* does not timely pay a renewal premium and the company or an agent duly authorized to accept premium payment subsequently accepts payment of the renewal premium without requiring an application, this provision shall state the policy is reinstated as of the date of receipt of the renewal premium.

(b) When the *Owner(s)* does not timely pay a renewal premium and the company or its agent requires an application for reinstatement, this provision shall state that the policy is reinstated upon approval of the application by the company; or, if the company does not act to approve the application, the policy is reinstated on the 45th day following the date of the receipt of the application for reinstatement unless the company has given notice to the *Owner(s)* of company disapproval of the application previous to the expiration of the forty-five (45) day time limit. Evidence of insurability may be required.

(c) This provision shall state that the reinstated policy shall cover loss resulting from accidental injury sustained on or after the date of reinstatement and loss due to *Sickness* as may begin on or after the date of reinstatement. The company may add riders, amendments or endorsements to the reinstated policy otherwise complying with these standards.

(d) Any premium accepted with a reinstatement shall be applied to a period for which the *Owner(s)* did not previously pay premium, but not to any period more than sixty (60) days prior to the date of reinstatement. (The last sentence may be omitted from any policy which the *Owner(s)* has the right to continue in force subject to its terms by timely premium

payment until at least the Insured's age 50 or, in the case of a policy issued after the Insured's age 44, for at least five years from its date of issue.)

(e) Misstatements in the application for reinstatement are subject to the same standards for misstatements in the original application. The company may impose a reasonable time limit to apply for reinstatement, but in no event less than six months from the termination date of the policy.

(17) **Required Total Disability Benefit.** A Disability Key Person Replacement policy shall provide a benefit for at least Total Disability.

(18) **Right to Examine Policy.** The Right to Examine Policy provision appearing on the cover page or that is visible without opening the policy shall provide a minimum of thirty (30) days for the *Owner(s)* to examine the policy, beginning on the date the policy is received by the *Owner(s)*. The provision shall include a requirement for the return of the policy to the company or an agent of the company, and state that the policy is considered void from the beginning and the parties shall be in the same position as if no policy had been issued. The provision shall state that if the policy is returned, a refund of any premium paid, including any policy fees or other charges, shall be made.

(19) **Suspension of Coverage While in Military Service.**

(a) The policy shall include a provision that entitles persons in military service to have their coverage suspended during a period of military service. To be entitled to coverage suspension an Insured shall:

(i) Be in the military service (land, sea or air) of any nation or international authority or in a reserve component of the armed forces of the United States, including the National Guard; and

(ii) Have entered voluntarily or involuntarily upon active duty or had active duty voluntarily or involuntarily extended (other than for the purpose of determining physical fitness and other than for training). The policy may state that there shall be no entitlement to coverage suspension for a period of active military training lasting three months or less.

(b) The company may restrict the period of suspension of coverage to five (5) years beyond the date of suspension but not to exceed the period of active duty. The policy shall state that in the implementation of the coverage suspension:

(i) The *Owner(s)* shall make a written request to the company or its agent for coverage suspension providing information that the Insured is eligible for the coverage suspension; and

(ii) The company shall suspend the coverage for eligible Insureds from the earlier of the date of receipt of the *Owner(s)*'s written request for coverage suspension or the date military service begins (or a later date if requested by the *Owner(s)*) and refund any unearned premiums for the period of suspension.

(c) The policy shall state that there will be no coverage during the period of suspension, and the *Owner(s)* will have to pay no premiums during the period of coverage suspension. Upon termination of active duty, the *Owner(s)* shall have the right to resume coverage without the Insured giving evidence of insurability, and the resumption of coverage shall be on the same basis as before the coverage suspension took effect. No exclusion, limitation or modification of coverage shall be imposed in connection with coverage of the health or physical condition of an Insured entitled to resumption of coverage (or the health or physical condition of any other person covered by the policy as a dependent who is not entitled to exercise resumption of coverage). These are the exceptions:

(i) The exclusion, limitation or modification was stated in the policy prior to the period of suspension (in the case of a *Elimination Period*, the *Elimination Period* had not been completed prior to the period of suspension); or

(ii) The company may exclude, limit or modify coverage for any *Disability* that occurred during the period the policy was suspended. If coverage is excluded, only disabilities from a *Sickness* which first manifests itself or an *Injury* which occurs after the policy is restored will be covered.

(d) The policy shall state that in calculating the expiration of a *Elimination Period* for a condition that did not arise during a period of active duty, the entire *Elimination Period* shall equal the *Elimination Period* that would have applied before coverage suspension took effect and time elapsed before and after the period of suspension shall be used to determine satisfaction of the entire *Elimination Period*.

(e) Coverage shall be resumed as of the date of termination of active duty subject to written application and payment of the required premiums not less than ninety (90) days after the date of termination of the period of active duty. Required premiums will be the same as they would have been if coverage had remained in force without any coverage suspension, and required premiums for resumption of coverage shall be paid for a period commencing no earlier than the date of termination of active duty.

(20) **Time Limit for Certain Defenses Other Than Misstatements in the Application.** The policy shall include a provision that no claim for loss incurred or disability commencing after two years from the policy issue date shall be reduced or denied on the ground that a disease or physical condition not excluded from coverage by name or specific description effective on the date of loss had existed prior to the effective date of coverage of the policy. This time limit shall not apply to fraudulent misstatements in the application.

However, for underwritten coverage increases issued subsequent to initial policy issuance, the policy may state that a new two-year time period applies from issuance of the underwritten coverage increases, and that any such new two-year time period applies only to the underwritten coverage increase. This time limit shall not apply to fraudulent misstatements in the application for coverage increase.

Drafting Note: This provision does not use the term "*Disability*" or "*Disabled*" as described in the definitions or concepts section because the statutory origin of the language to be used in this required policy provision requires a broader meaning.

(21) **Timely Payment of Claims.** The policy shall include a provision stating when a company shall be required to pay claims. Benefits provided under the policy for any loss, other than loss for which the policy provides any periodic payment, shall be paid immediately upon receipt of due written proof for such type of loss. Subject to due written proof of loss, all accrued benefits for loss for which the policy provides monthly payment shall be paid no less frequently than monthly and any balance remaining unpaid upon termination of liability of the company shall be paid immediately upon receipt of due written proof of loss. The policy shall state that if a claim is paid more than 30 days after a company receives satisfactory proof of loss, as described in the policy, the delayed payment shall be subject to simple interest at the rate of 10% per year beginning with the 31st day after receipt of satisfactory proof of loss and ending on the day the claim is paid.

D. OPTIONAL PROVISIONS

The Interstate Insurance Product Regulation Commission may approve the following optional provisions if the provisions meet the standards as set forth below. The company may, at its option, use a provision of different wording approved by the Interstate Insurance Product Regulation Commission that is not less favorable in any respect to the Insured and/or the *Owner(s)*. The company may include in the policy one or more of these optional provisions.

(1) **Arbitration.** Only arbitration provisions that permit voluntary post-dispute binding arbitration shall be allowed in policy forms. With respect to such a provision, the following guidelines apply:

(a) Arbitration shall be conducted in accordance with the rules of the American Arbitration Association ("AAA"), before a panel of 3 neutral arbitrators who are knowledgeable in the field of *Disability Buy-Sell* insurance and appointed from a panel list provided by AAA.

(b) Arbitration shall be held in the city or county where the *Owner(s)* is located.

(c) The cost of arbitration shall be paid by the company, to include any deposits or administrative fee required to commence a dispute in arbitration, as well as any other fee including an arbitrator's fee.

(d) Where there is an inconsistency between these guidelines and AAA rules, these guidelines control.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternals to implement their respective articles and bylaws. See Appendix B.

(2) **Assignment.** The policy may include an assignment provision. The provision shall describe the procedures for an assignment. Unless otherwise specified by the *Owner(s)*, an assignment will take effect on the date the assignment is signed subject to any payments made or actions taken by

the company prior to receiving notice of the assignment. The provision may state that the company shall not be liable for the validity of the assignment.

(3) **Buy-sell Agreement** – The policy may include a provision to require the agreement must be in place within one year of the policy being placed in force or prior to a claim being filed.

(4) **Change of *Occupation*.** The policy may include a provision regarding when an Insured becomes injured or sick after having changed his *Occupation* to one classified by the company as more hazardous than that stated in the policy or when an Insured is doing for compensation anything pertaining to a more hazardous *Occupation* as classified by the company. This provision may state that the company, upon receipt of proof of such change of *Occupation*, shall pay only such portion of benefits provided in the policy as the premium paid would have purchased at the rates and within the limits fixed by the company for the more hazardous *Occupation.*

(a) When an Insured changes an *Occupation* to one classified by the company as less hazardous than that stated in the policy, the company, upon receipt of proof of such change of *Occupation*, shall reduce the premium rate accordingly, and the company shall return the excess pro-rata unearned premium from the date of change of *Occupation* or from the policy anniversary date immediately preceding receipt of proof of change of *Occupation*, whichever date is more recent.

(b) This provision shall state that the classification of occupational risk and the premium rates shall be those last approved for the company by the Interstate Insurance Product Regulation Commission prior to the occurrence of the loss for which the company is liable or prior to date of proof of change in *Occupation.*

(5) **Continuation of Benefits** – Removes the reduction of benefits that may happen within five years of the termination of coverage.

(6) **Misstatement of Age, Sex or Tobacco Use Status.** The policy may include a provision that shall state that if the Insured's age, sex or tobacco use status has been misstated, all amounts payable under the policy shall be amounts as the premium paid would have purchased at the correct age, sex, or tobacco use status. The company may terminate coverage and refund premiums if the correct age is outside the issue age ranges of the form.

(7) **Ownership.** The policy may include an ownership provision. If included, the provision shall describe the procedures for designating or changing the *Owner(s)* and indicating when the designation is effective

(8) **Procedures for Review of a Denial of a Claim.** The policy may include a provision for review of denial of a claim. If included:

(a) The provision shall state that the Insured must request, in writing, a review of the denial of claim within a specified number of days after the Insured receives notice of the denial.

(b) The policy shall include a provision that an Insured has the right to review, upon request and free of charge, copies of all documents, records, and other information relevant to the Insured's claim for benefits, and the Insured may submit written comments, documents, records and other information relating to the claim for benefits.

(c) The policy shall include a provision that the insurance company will review an Insured's claim after receiving the Insured's request and send the Insured a notice of its decision within a specified number of days after the insurance company receives the request, or within another specified period of days if special circumstances require an extension. The number of days shall be specified in the policy. The insurance company will state the reasons for its decision and refer the Insured to the relevant provisions of the policy. The insurance company will also advise the Insured of the Insured's further appeal rights, if any.

(9) **Supplemental Benefits.** The policy may include supplemental *Disability Buy-Sell* benefits for specified *Injury*, *Sickness* or *Injury* and *Sickness*, or for other specified business expenses, such as an option for a future increase of the *Disability Buy-Sell Benefits*, which would not be subject to evidence of insurability. The terms and conditions for such supplemental benefits shall be specified in the policy. Such supplemental benefits shall be in addition to, and not in lieu of, *Disability Buy-Sell* benefits payable under the policy.

(10) **Termination of benefits** – A policy may include a provision to terminated benefits upon the death of the Insured.

(11) **Unpaid Premium.** The policy may include a provision stating that, upon the payment of a claim under the policy, any premium then due and unpaid may be deducted from the claim payment.

(12) **Waiver of Premium.**

(a) The policy may include a provision stating that, for a time period of not more than ninety (90) days of *Total Disability*, which is eligible for payment under the policy (any days of such *Total Disability* occurring during an *Elimination Period* shall count toward the ninety (90) day time period), the company shall:

(i) Refund to the *Owner(s)* any premiums that were due and paid for the policy while the Insured was *Totally Disabled*; and

(ii) Waive the payment of premiums that become due for as long as the *Total Disability* continues. At the option of the company, the company may limit the waiver of premium so that the company waives the payment of premiums that become due for as long as the *Total Disability* continues, but not beyond the *Benefit Factor/Benefit Period* or *Aggregate Benefit Amount*.

(b) The policy may also state that, after *Total Disability* ends and the policy is still inforce, the *Owner(s)* shall:

(i) Resume the payment of premiums by paying the pro-rata portion of any premium until the next premium due date; and

(ii) Continue to pay premiums as provided for in the policy after payment of the pro-rata portion of any premium until the next premium due date.

(c) If the company requires proof of *Total Disability* for premiums to be waived, the policy shall state that satisfactory proof of *Total Disability* shall be provided to the company for premiums to be waived. The policy shall also state that, in the event of the death of the *Insured*, any premium refunds due to the *Owner(s)* from the company may, at the option of the company, be paid to any beneficiary designated for loss of life or to the estate of the Insured.

E. PERMISSIBLE LIMITATION OR EXCLUSION BASED ON THE UNDERWRITING PROCESS FOR EACH PROPOSED INSURED

(1) Any limitation or exclusion based on information disclosed by the proposed Insured in the application for the policy, or identified for the proposed Insured during the underwriting process of such application, is subject to applicable law in the state where the policy is delivered or issued for delivery and must be based on the Standards for Forms Used to Limit or Exclude Individual Disability Income Insurance Policy Coverage Based on the Underwriting Process for Each Proposed Insured, as Applicable to the Following Products:

- Disability Income Plans;
- Buy-Sell Plans;
- Key Person Plans; and
- Business Overhead Expense Plans.

F. PERMISSIBLE LIMITATIONS OR EXCLUSIONS

The Interstate Insurance Product Regulation Commission may approve the following limitations or exclusions if they meet the standards set forth below. The company may include in the policy one or more of these limitations or exclusions.

(1) **Aeronautics.** *Disability* that results from hang-gliding, skydiving, parachuting, ultralight, soaring, ballooning and parasailing may be limited or excluded.

(2) **Aviation.** Loss that results from aviation, other than as a fare-paying passenger on a scheduled or charter flight operated by a scheduled airline, may be limited or excluded. "Aviation" may also include travel in an aircraft or device used for testing or experimental purposes, used by or for any military authority, or used for travel beyond the earth's atmosphere.

(3) **Benefit Reduction On Account of Other *Disability Buy-Sell* Coverage.**

(a) If the *Insured* has a *Disability Buy-Sell* coverage with another company in effect at the time of *Total Disability*, the benefits of the policy will be adjusted to a proportion equal to the percentage the policy’s benefit bears to the total amount of the *Disability Buy-Sell* coverage. The total benefits provided by the policy and any other *Disability Buy-Sell* coverage in effect at the time of *Total Disability* will not exceed the total *Purchase Price* due.

(b) The provision shall also state that in no event will the total monthly amount of benefits paid under all valid *Disability Buy-Sell* coverage be reduced below the sum of three hundred dollars.

(c) The use of the term "coordination of benefits" shall not be acceptable in describing this provision.

(4) **Chemical Dependency.** Subject to the applicable law in the state where the policy is delivered or issued for delivery, loss that results from alcoholism or drug addiction may be limited or excluded.

(5) **Cosmetic Surgery.** Loss that results from cosmetic surgery may be limited or excluded. However, cosmetic surgery shall not include reconstructive surgery when the surgery is incidental to or follows surgery resulting from trauma, infection or other diseases of the involved part and reconstructive surgery because of congenital disease or anomaly resulting in a functional defect.

(6) **Disabilities Not Verifiable by Objective Medical Means.**

(a) Loss that results from a specific *Injury* or specific *Sickness* not verifiable by objective medical means may be limited to the minimum available *Aggregate Benefit Amount* offered by a company for coverage of disabilities resulting from *Injury* or *Sickness*. The policy shall not exclude coverage for such disabilities from the policy.

(b) An *Injury or Sickness* is considered not verifiable by objective medical means if it cannot be confirmed by medically acceptable clinical or laboratory diagnostic techniques. As used in this item, "Objective Medical Means" means medical evidence consisting of signs, symptoms, and laboratory findings. A diagnosis based solely on an Insured's statement of symptoms will not be considered Objective Medical Means of verifying an *Injury* or *Sickness*.

(7) **Disabled Insured Residing Outside the United States, Territories or Possessions of the United States or Canada, as Applicable (the "Specified Area").** While a *Disabled* Insured is residing outside the Specified Area, benefits for such *Disability* may be limited to a period of time not less than twelve (12) months and subsequently suspended. The limitation and suspension may apply whether or not the *Disability* began while the Insured was residing outside the specified area. If benefits have been suspended, the policy shall state that upon return to the specified area, a *Disabled* Insured may resubmit a notice of claim for benefits under the policy.

(8) **Felony.** Loss that results from the Insured's commission of or attempt to commit a felony may be limited or excluded.

(9) **Illegal Occupation or Activity.** Loss that results from the Insured's being engaged in an illegal occupation or activity may be limited or excluded.

(10) **Incarceration.** *Disability* benefits may be limited or excluded during a period of legal incarceration in a penal or correctional institution of more than seven (7) days or during a period

of legal detainment of more than seven (7) days where the period of legal incarceration or legal detainment results in an inability of the Insured to meet any work requirements contained in the definitions of *Disability* set forth in the policy form.

(11) **Intoxicants, Narcotics or Other Controlled Substances.** Subject to the applicable law in the state where the policy is delivered or issued for delivery, loss that results from the Insured's legal intoxication defined by state law where the loss occurs, or loss that results from the use of narcotics or other controlled substances, unless administered on the advice of a physician, may be limited or excluded.

(12) ***Mental or Nervous Disorders*.** Subject to the applicable law in the state where the policy is delivered or issued for delivery, loss that results from *Mental or Nervous Disorders* may be limited or excluded. If coverage is to be limited, coverage shall be provided for at least twelve (12) months.

(13) ***Preexisting Conditions*.**

(a) Any provision included in a policy limiting or excluding coverage for losses incurred or disabilities arising from *Preexisting Condition*s shall clearly define the limitation or exclusion and disclose such limitation or exclusion in the policy.

(b) Beginning no more than twelve (12) months following the effective date of the policy, the policy shall not limit or exclude coverage for a loss due to a *Preexisting Condition* if the application for the insurance does not seek disclosure of prior illness, disease or physical conditions or prior medical care and treatment and the *Preexisting Condition* is not specifically limited or excluded by the terms of the policy.

(c) For a disease or physical condition that has not been excluded from coverage by name or specific description effective on the date of loss, losses incurred or disabilities commencing on or after the coverage effective date due to that disease or physical condition shall be covered immediately when:

(i) The disease or physical condition is an *Injury* or *Sickness* as described in the Definitions and Concepts section and is not a *Preexisting Condition* as described in the Definitions and Concepts section; or

(ii) The disease or physical condition is disclosed in the application, but the company has taken no express underwriting action for the disease or physical condition.

Drafting Note: This provision does not use the term "*Disability*" or "*Disabled*" as described in the Definitions and Concepts section because this provision requires a broader meaning.

(14) **Recreational Activity (Avocation, Hobby or Sport).** *Disability* that results from participating in one or more of the following recreational activities may be limited or excluded: motor sports events, racing, speed or endurance contest (auto, truck, cycle, boat), technical rock or mountain climbing, scuba diving in depths greater than one hundred (100) feet, including decompression, cave, and mixed gas diving, or dives requiring specialized equipment, or bungee jumping. The

policy may also limit or exclude *Disability* that results from an Insured's participation in any sport for wage, compensation or profit.

(15) **Specified Conditions.**

(a) Loss that results from specified conditions may be limited may be limited to a period of not less than twelve (12) months or the maximum *Benefit Period*, whichever is less. The policy shall not exclude coverage for such Disabilities. The specified conditions may include any one or more of the following: fibromyalgia; chronic fatigue syndrome; myofacial_pain syndrome, environmental allergic illness, including but not limited to sick building syndrome and multiple chemical sensitivity; carpal tunnel syndrome not requiring surgery; musculoskeletal and connective tissue disorders of the neck, shoulder and back, including any disease or disorder of the cervical, thoracic and lumbosacral back and its surrounding soft tissue, including sprains and strains of joints and adjacent muscles.

(b) The specified conditions shall not include any of the following: scoliosis, spinal fractures, osteopathies, traumatic spinal cord necrosis, radiculopathies documented by an electromyogram, spondylolisthesis grade II or higher, myelopathies and myelitis, demyelinating diseases, and spinal tumors, malignancies or vascular malformations.

(16) **Suicide.** Loss that results from attempted suicide or intentionally self-inflicted injury may be limited or excluded.

(17) **War, Riot and Insurrection.** Loss that results from one or more of the following may be limited or excluded as follows:

(a) Declared or undeclared war or act of war;

Drafting Note: Companies may consider additional language and in that case the Interstate Insurance Product Regulation Commission shall use the following guidelines: Declared or undeclared war or act of war is understood to be military activity by one or more national governments and does not include terrorist acts, other random acts of violence not perpetrated by the Insured, or civil war or community faction. Civil activity as a whole cannot be excluded, except for direct participation or instigation by the Insured.

(b) Participation in a riot or insurrection; or

Drafting Note: Companies may consider additional language and in that case the Interstate Insurance Product Regulation Commission shall use the following guidelines: An exclusion for riot or insurrection is limited to instigators and those pursuing participation and does not include civil commotion, disorder, injury as an innocent bystander, or injury for self-defense.

(c) Active duty in the armed forces of any nation or international governmental authority or units auxiliary thereto or the National Guard or similar government organizations (except that this limitation or exclusion shall not be construed to deny the *Owner(s)* any right to suspend coverage while the Insured is serving in the armed forces of any nation or international governmental authority or units auxiliary thereto or the National Guard or

similar government organizations. The Suspension of Coverage While In Military Service provision describes how suspension of coverage works.)

Drafting Note: The Interstate Insurance Product Regulation Commission will maintain a comprehensive listing of state-specific requirements for those limitations and exclusions listed above that indicate "subject to applicable law in the state where the policy is delivered or issued for delivery," based on information reported by Member States.

G. PROHIBITED LIMITATIONS AND EXCLUSIONS

The following limitations and exclusions are prohibited:

(1) **Complications of Pregnancy.** Disabilities due to complications of pregnancy as diagnosed by a *Physician* shall not be the subject of a Permissible Limitation or Exclusion.

(2) **Discretionary Clauses.**

(a) No policy may contain a provision:

(i) Purporting to reserve sole discretion to the insurance company to interpret the terms of a policy; or

(ii) Specifying a standard of review upon which a court may review denial of a claim or any other decision made by an insurance company with respect to an Insured.

(3) **Probationary Period for Specified Medical Conditions.** Absent medical underwriting, *Disability* benefits shall not be limited or excluded through the use of a policy provision establishing a probationary period for specified medical conditions.

H. BENEFIT PROVISIONS

(1) **Death Benefit.** *Death Benefits*, if included, shall be payable in addition to any *Disability Buy-Sell* benefit payable. The amount payable shall be a lump sum not to exceed the equivalent of three (3) monthly *Disability Buy-Sell* benefits payable under the policy.

(a) If this *Death Benefit* is contingent upon death while *Disabled* ("Survivorship Benefit"), the company may require the Insured to satisfy the *Elimination Period*, be determined by the company to be *Disabled* and be receiving *Disability Buy-Sell* benefits prior to the date of death.

(b) The policy shall clearly state the conditions under which any *Death Benefit* may be payable.

(2) **Exchange Privilege**. Policy may allow the Insured to exchange the *Disability Buy-Sell* policy to a disability income policy if they no longer have ownership interest in the *Business/Company*.

(3) **Extension of Benefits.** If the *Aggregate Benefit Amount* has not been paid during the *Benefit Factor/Benefit Period,* the benefit may be extended for a specified period of time (up to a period of 6 months) beyond the maximum *Benefit Factor/Benefit Period* stated in the policy.

(4) **Rate Increases Based on Attained Age or Duration of the Policy.** A *Disability Buy-Sell* policy whose rates increase due to the attainment of certain ages by the Insured or due to the duration of the policy shall include an applicable schedule of rates showing the rates associated with attained ages of the Insured or duration of the policy in a prominent place, such as the specifications page.

(5) **Rights to Purchase Future Benefits Without Evidence of Medical Insurability**. A *Disability Buy-Sell* policy that offers the *Owner(s)* the right to purchase additional *Disability Buy-Sell* coverage for the Insured in the future without evidence of medical insurability shall clearly specify the amount of future coverage that may be available for purchase and any requirements necessary (e.g. financial or occupational underwriting) to qualify for the future coverage.

(a) A policy may state that any additional coverage will be provided by the purchase of a new policy or an increase in the coverage level of the existing policy. If the additional coverage will be provided by the issuance of a new policy, the policy shall clearly state that the new policy will have the same terms as those policies being issued by the company on the date of purchase of the new policy. The additional coverage purchased shall be subject only to any limitations and exclusions that may be in effect for the existing policy on the effective date of the additional coverage; however, no new medical limitations or medical exclusions shall be imposed on the additional coverage.

(6) **Termination of Insurance under the Policy.**

(a) The policy shall include a provision stating how and when insurance under the policy may end. The provision may include termination, as applicable, at the earliest of:

(i) The expiry date shown in the policy, unless an *Owner(s)* renews the policy as provided in the renewal provisions of the policy;

(ii) The end of the period for which premium has been paid, if premium is not paid by the end of the grace period;

(iii) The date the company receives the *Owner*'s written request to end the policy;

(iv) The expiration of applicable Suspension of Coverage period(s) specified in the policy if the Insured does not request that suspension end before such expiration; or

(v) The date the Insured dies; or

(vi) The date the Insured no longer has any ownership or is no longer employed or working for the *Business/Company; or*

(vii) Once the *lump sum* or *Aggregate Benefit Amount* has been paid; or

(viii) Date the *Buy-Sell Agreement* is terminated or executed

(7) **Transfer Privilege.** Allows the Insured to become the Insured under any other form of *Disability Buy-Sell* policy without medical evidence of insurability

§ 4. ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES

A. MEMBERSHIP

(1) The certificate may include a provision stating that the Insured and/or *Owner(s)* is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance.

B. MAINTENANCE OF SOLVENCY

(1) The certificate may include a provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.

Appendix A
Flesch Methodology

The following measuring method shall be used in determining the Flesch score:

(1) For policy forms containing 10,000 words or less of text, the entire form shall be analyzed. For policy forms containing more than 10,000 words, the readability of two, 200-word samples per page may be analyzed instead of the entire form. The sample shall be separated by at least 20 printed lines.

(2) The number of words and sentences in the text shall be counted and the total number of words divided by the total number of sentences. The figure obtained shall be multiplied by a factor of 1.015.

(3) The total number of syllables shall be counted and divided by the total number of words. The figure obtained shall be multiplied by a factor of 84.6.

(4) The sum of the figures computed under (2) and (3) subtracted from 206.835 equals the Flesch reading ease score for the policy form.

(5) For purposes of (2), (3), and (4), the following procedures shall be used:

(a) A contraction, hyphenated word, or numbers and letters, when separated by spaces, shall be counted as one word;

(b) A unit of words ending with a period, semicolon, or colon, but excluding headings and captions, shall be counted as a sentence; and

(c) A syllable means a unit of spoken language consisting of one or more letters of a word as divided by an accepted dictionary. Where the dictionary shows two or more equally acceptable pronunciations of a word, the pronunciation containing fewer syllables may be used.

(6) The term “text” as used in this section shall include all printed matter except the following:

(a) The name and address of the company; the name, number or title of the policy; the table of contents or index; captions and subcaptions; specifications pages, schedules or tables; and;

(b) Any policy language which is drafted to conform to the requirements of any federal law or regulation; any policy language required by any collectively bargained agreement; any medical terminology; any words which are defined in the policy; and any policy language required by law or regulation; provided, however, the company identifies the language or terminology excepted by this paragraph and certifies, in writing, that the language or terminology is entitled to be excepted by this paragraph.

(7) At the option of the company, riders, endorsements, amendments, applications and other forms made a part of the policy may be scored as separate forms or as part of the policy with which they may be used.

<u>Appendix B</u>
Fraternal Benefit Societies

Fraternal Benefit Societies ("fraternals") are subject to separate fraternal codes in all jurisdictions due to their unique structure, operations and legal obligations. The Drafting Notes included at the ends of the **AGREEMENTS** standards, the new section entitled **ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES,** and **Appendix B** are included in the standards to allow fraternals to experience the benefits of participating in the single point of filing and review process that the IIPRC offers, without jeopardizing their ability to meet their unique obligations and to operate as required or permitted by law.

By law, a fraternal is defined by five basic elements:

1. one without capital stock;

2. one conducted solely for the benefit of its members and their beneficiaries by providing life, health and annuity benefits and by operating one or more social, educational, charitable, patriotic, or religious purposes for the benefit of members and others;

3. one that is a benevolent and charitable institution and not for profit;

4. one operated on a lodge system that may carry out charitable and other activities; and

5. one that has a representative form of government with a governing body and direct election of its members.

The laws governing fraternals impact the standards in several ways. Fraternals are required by law to issue insurance contracts that incorporate the laws of the Society and the application for membership. Thus, the contract must consist not only of the policy or certificate issued, and the application for insurance, but also the application for membership and the articles and bylaws. Further, the laws governing fraternals require or permit that the articles and bylaws address the structure of lodges, membership requirements, form of governance, grievance procedures, and eligible beneficiaries. Any amendments to the articles or bylaws made after issuance of a certificate must be applied consistently to all members retroactively. However, no amendment shall eliminate or reduce contractual benefits.

By law, fraternals are membership organizations. Because of this, the law refers to the insurance forms issued to members of a fraternal as "certificates" or "certificates of membership and insurance". Further, due to the membership requirements, fraternal certificates often include a provision stating that the Insured and/or *Owner(s)* is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance. In addition, fraternal certificates may include a Maintenance of Solvency provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.

IIPRC-DI-I-H11-DKPR
INDIVIDUAL DISABILITY KEY PERSON REPLACEMENT INSURANCE POLICY STANDARDS

1. Date Adopted:

2. Purpose and Scope: The *Individual Disability Key Person Replacement Insurance Policy Standards* apply to individual Disability Key Person Replacement insurance policies that are individually underwritten, including policies that are marketed through employer and association groups ("multi-life" plans).

3. Statutory Authority: Among the IIPRC's primary purposes and powers is to establish reasonable uniform standards for the insurance products covered in the Interstate Insurance Product Regulation Compact ('Compact"), specifically pursuant to Article I §2, Article IV §2 and Article VII §1 of the Compact, as enacted into law by each IIPRC member state.

4. Required Findings: None.

5. Effective Date: TBD

INDIVIDUAL DISABILITY KEY PERSON REPLACEMENT INSURANCE POLICY STANDARDS

Table of Contents

Provision/Section **Page**

SCOPE 1
§ 1. ADDITIONAL FILING SUBMISSION REQUIREMENTS 1
A. GENERAL 1
B. ACTUARIAL SUBMISSION REQUIREMENTS 2
C. VARIABILITY OF INFORMATION 2
D. READABILITY REQUIREMENTS 3
§ 2. GENERAL FORM REQUIREMENTS 3
A. COVER PAGE 3
B. SPECIFICATIONS PAGE 4
C. FAIRNESS 5
§ 3. POLICY PROVISIONS 5
A. AMENDMENTS, RIDERS AND ENDORSEMENTS 5
B. DEFINITIONS AND CONCEPTS 6
C. REQUIRED PROVISIONS 14
D. OPTIONAL PROVISIONS 20
E. PERMISSIBLE LIMITATION OR EXCLUSION BASED ON THE UNDERWRITING PROCESS FOR EACH PROPOSED INSURED 23
F. PERMISSIBLE LIMITATIONS OR EXCLUSIONS 24
G. PROHIBITED LIMITATIONS AND EXCLUSIONS 28
H. BENEFIT PROVISIONS 28
§ 4. ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES 30
A. MEMBERSHIP 30
B. MAINTENANCE OF SOLVENCY 30
Appendix A 31
Appendix B 33

INDIVIDUAL DISABILITY KEY PERSON REPLACEMENT INSURANCE POLICY STANDARDS

Scope: These standards shall apply to individual *Disability Key Person Replacement* insurance policies that are individually underwritten, including policies that are marketed through employer and association groups ("multi-life" plans).

Separate additional standards will apply for:

- disability income plans;
- buy-sell plans; and
- overhead expense plans.

Consult the Interstate Insurance Product Regulation Commission website to determine when these additional standards are available for filing.

Mix and Match: These standards are not available to be used in combination with State Product Components as described in Section 111(b) of the Operating Procedure for the Filing and Approval of Product Filings, except that these standards are available to be used in combination with state-approved individual life insurance policies and annuity contracts, provided that the disability income rider and all the components associated with the disability income rider, e.g. application and rates, are filed and approved in accordance with the applicable uniform standards.

Self-Certification: These standards are not available to be filed using the *Rule for the Self-Certification of Product Components Filed with the Interstate Insurance Product Regulation Commission*.

Drafting Note 1: References to "policy" or "plan" do not preclude Fraternal Benefit Societies from substituting "certificate" in their forms.

Drafting Note 2: Any reference to "policy" in these standards shall not include a group policy or a group certificate because these standards only apply to individual forms.

Drafting Note 3: Unless otherwise stated, all terms used in these standards shall have the same meaning as defined in the Standards for Individual Disability Income Insurance Policies

§ 1. ADDITIONAL FILING SUBMISSION REQUIREMENTS

A. GENERAL

The following additional filing submission requirements apply:

(1) For new policy filings, the filing shall indicate the respective application, the outline of coverage, and the rate schedules to be used with the policy.

(2) All forms filed for approval shall be included with the filing.

(3) Subsequent *Disability Key Person Replacement* insurance filings submitted for approval shall include only those forms being submitted for approval and should specify any other forms previously approved by the Interstate Insurance Product Regulation Commission that will be used with the subsequently filed form(s). Changes to a previously approved form shall be highlighted.

(4) The specifications page of the policy shall be completed with hypothetical data that is realistic and consistent with the other contents of the policy and any required actuarial filings.

(5) If the filing contains variable items, include a Statement of Variability that presents reasonable and realistic ranges for each item. The filing shall also include a certification that any change or modification to a variable item shall be administered in accordance with the requirements of the Variability of Information section, including any requirements for prior approval of a change or modification.

(6) Include a certification signed by a company officer that the policy has a minimum Flesch Score of 50.

(7) If the filing is being submitted on behalf of the company, include a letter or other document authorizing the firm to file on behalf of the company shall be included with the filing.

(8) If the filing contains an insert page, include an explanation of when the insert page will be used.

(9) Include a description of any innovative or unique features of each policy form.

B. ACTUARIAL SUBMISSION REQUIREMENTS

(1) Include the information required by the initial rate filing standards of the Interstate Insurance Product Regulation Commission.

C. VARIABILITY OF INFORMATION

(1) The company may identify items that will be considered variable. The items shall be bracketed or otherwise marked to denote variability. Variability shall be limited to benefit data applicable to the *Owner* or *Insured*, *Disability Key Person Replacement* benefit, amounts, durations, and premium information. Variability shall also include the limitations and exclusions that are required to comply with applicable law in the state where the policy is delivered or issued for delivery under Section 3.F. (4), (11) and (12). The filing shall include a Statement of Variability that will discuss the conditions under which each variable item may change as well as the alternative content to which the item may change.

(2) Any change or modification shall be limited to only new issues of the policy and shall not apply to in force policies.

(3) A change in any variable outside of the conditions discussed in the Statement of Variability requires prior approval.

(4) Notwithstanding Paragraph (1) above, items such as the insurance department address and telephone number, company address and telephone number, officer titles and signatures of officers located in other areas of the policy may be denoted as variable and changed without notice or prior approval.

D. READABILITY REQUIREMENTS

(1) The policy text shall achieve a minimum score of 50 on the Flesch reading ease test or an equivalent score on any other approved comparable reading test. See Appendix A for Flesch methodology.

(2) The policy shall be presented, except for specification pages, schedules and tables, in not less than ten point type, one point leaded.

(3) The style, arrangement and overall appearance of the policy shall give no undue prominence to any portion of the text of the policy or to any endorsements or riders.

(4) The policy shall contain a table of contents or an index of the principal sections of the policy, if the policy has more than 3,000 words printed on three or fewer pages of text or if the policy has more than three pages regardless of the number of words.

§ 2. GENERAL FORM REQUIREMENTS

A. COVER PAGE

(1) The full corporate name, including city and state of the insuring company shall appear in prominent print on the cover page of the policy. "Prominent print" means, for example, all capital letters, contrasting color, underlining or otherwise differentiating from the other type on the form.

(2) A marketing name or logo may also be used on the cover page of the policy provided that the marketing name or logo does not mislead as to the identity of the insuring company.

(3) The company's complete mailing address for the home office or other office that will administer the policy shall appear on the cover page of the policy. The cover page of the policy shall include a telephone number of the company and, if available, some method of Internet communication. The telephone number of the insurance department of the state where the policy is delivered or issued for delivery is also required on either the cover page or the first specifications page.

(4) Two signatures of company officers shall appear on the cover page of the policy.

(5) A Right to Examine Policy provision shall appear on the cover page of the policy or be visible without opening the policy

(6) A form identification number shall appear at the bottom of the form in the lower left hand corner of the form. The form number shall be adequate to distinguish the form from all others used by the company. The form number shall include a prefix of ICCxx (where xx represents the appropriate year the form was submitted for filing) to indicate it has been approved by the Interstate Insurance Product Regulation Commission.

(7) A brief description shall appear in prominent print on the cover page of the policy or is visible without opening the policy. The brief description shall contain at least the following information:

(a) A statement that Disability *Key Person Replacement* coverage is being provided;

(b) A statement as to whether the policy is Conditionally Renewable; Continuable with Guaranteed Premiums; Guaranteed *Renewable* or *Noncancellable*;

(c) A conspicuous statement as follows: *Preexisting Condition* limitations or exclusions and other limitations or exclusions may apply. Please read your policy carefully;

(d) A statement as to any benefit limits or reductions due to the *Insured*'s attainment of certain ages; and

(e) A statement as to whether the policy is *Participating* or *Non-Participating*.

B. SPECIFICATIONS PAGE

(1) The specifications page shall include the *Disability Key Person Replacement* benefits, amounts, durations, premium information, and any other benefit data applicable to the *Owner* or *Insured*. Any policy fee shall be identified.

(2) If rates are scheduled to increase due to the attainment of certain ages by the *Insured* or due to the duration of the policy, the specifications page shall include an applicable schedule of rates. For a policy issued on a non-cancellable basis that subsequently changes to *Conditionally Renewable* at a specified age, the specifications page that is initially provided shall include only the schedule of rates that initially applies.

(3) If the rates included on the current specifications page are subsequently changed, a revised specifications page shall be issued for the policy.

(4) If the policy is a *Participating* policy, the specifications page shall indicate that the dividends are not guaranteed. In addition, if the company does not intend to credit dividends, then the specifications page shall state that dividends are not expected or anticipated to be paid.

C. FAIRNESS

(1) The policy shall not contain inconsistent, ambiguous, unfair, inequitable or misleading clauses, provisions that are against public policy as determined by the Interstate Insurance Product Regulation Commission, or contain exceptions and conditions that unreasonably affect the risk purported to be assumed in the general coverage of the policy.

<u>§ 3. POLICY PROVISIONS</u>

A. AMENDMENTS, RIDERS AND ENDORSEMENTS

(1) Except for amendments, riders or endorsements by which the company effectuates a request made in writing by the *Owner* under an individual *Disability Key Person Replacement* insurance policy, all amendments, riders or endorsements added to an individual *Disability Key Person Replacement* insurance policy on or after its date of issue or at reinstatement or renewal that reduce or eliminate benefits or coverage in the policy shall require signed acceptance by the *Owner*, except if the decreased benefits or coverage are required by applicable law. After the date of policy issue, any amendment, rider or endorsement which increases benefits or coverage with a concomitant increase in premium during the policy term shall be agreed to in writing signed by the *Owner*, except if the increased benefits or coverage are required by applicable law. Where a separate additional premium is charged for benefits provided in connection with amendments, riders or endorsements, the premium charge shall be set forth in the policy, amendment, rider or endorsement.

(2) The policy may permit the company to make unilateral changes in the policy if a change or clarification in applicable law officially compels the company to make such changes to an in- force policy. In such case, the policy shall provide that the company shall make unilateral changes to the minimum extent required to comply with applicable law. The policy shall also provide for timely notification before the change becomes effective (no less than 30 days unless the change or clarification in applicable law officially compels the company to use a shorter time period) and a statement that the company will provide the effective date of the change to the *Owner*.

Drafting Note 1: Terms and conditions stated in certain policies (often in policy renewal provisions) eliminate or curtail the company's right to make unilateral changes to the language and/or premium rates of in-force policies either for the entire time the policy is in force or for stated time periods while the policy is in force. These limitations placed upon the company in the policy terms and conditions are marketed by the company as safeguards for an *Insured* from any possible adverse unilateral company changes to in-force coverage. The intent of Paragraph (2) above is to clarify the ability of the company to make only required and necessary unilateral changes to any in-force policy only when the company is compelled to do so due to a change or clarification in applicable law.

Drafting Note 2: These standards are modified, as required or permitted by law, to enable fraternals to implement their respective articles and bylaws. See Appendix B.

B. DEFINITIONS AND CONCEPTS

The policy shall define certain terms or describe concepts that, as used in the policy, will have specific meanings. If the policy contains the terms or describes the concepts set forth below, the definitions of the terms or descriptions of the concepts shall be consistent with the standards set forth below. The actual terms or concepts may vary as long as the language used to define the actual terms or describe the concepts is consistent with the standards set forth below. The terms may be defined or concepts described in a definitions section of the policy, or the terms may be defined or concepts described in a policy provision that is a logical place for the definitions or concept descriptions.

(1) "***Active Full-Time Work***" or "***Active Full-Time Basis***" means that the *Insured* spends at least a specified number of hours a week, such as 30 hours, working in their *Occupation*. The policy may also require that the *Insured* be working the specified number of hours a week in their *Occupation* for the *Business*.

(2) "***Activities of Daily Living (ADL's)***" means at least bathing, continence, dressing, eating, toileting and transferring.

(3) "***Aggregate Benefit Amount***" means, subject to satisfaction of all policy terms and conditions by the *Insured*, the aggregate amount of benefit for which the *Owner* or assignee can be paid (usually monthly) for *Key Person Replacement* under the policy. The policy may also specify a maximum monthly amount of benefit.

(4) "***Beneficiary***" means the person or persons designated as such in the application. If the policy will include benefits for which a *Beneficiary* may be designated, the policy shall contain a *Beneficiary* provision. The provision shall state that, unless the *Owner* designates an irrevocable *Beneficiary,* the right to change the *Beneficiary* is reserved to the *Owner*, and the consent of the *Beneficiary* shall not be required to:

(a) Terminate or assign the policy;

(b) Change the *Beneficiary*; or

(c) Make any other changes in the policy.

The company has the option not to permit the designation of an irrevocable *Beneficiary.*

(5) "***Benefit Period/Benefit Factor***" means, subject to satisfaction of all policy terms and conditions by the *Owner* or assignee, the length of time that can be used to calculate periodic *Disability Key Person Replacement* under the policy. If there is a maximum *Benefit Period/Benefit Factor*, the maximum shall be stated in the policy.

(6) "***Benefit Payment Methods***" means the methods of benefit payments are:
(a) Monthly payment means the maximum monthly amount payable for any *Total Disability* after satisfying the *Elimination Period.*
(b) Lump sum payment means the maximum lump sum amount payable for any *Total Disability* after satisfying the *Elimination Period*.
(c) Combination payment means a combination of the monthly payment and lump payment methods.

(7) "***Business/Company***" means the business or professional entity(ies) in which the *Insured* may have an ownership interest, as named in the application, or any other business or professional entity in which the *Insured* develops an ownership interest after becoming *Insured* under the policy, if the policy provides for such coverage.

(8) *"**Business Income***" means the gross earned income of the *Business/Company* less the *Cost of Sales and Services*. If the *Insured* does not own 100% of the *Business/Company*, only the percentage of income attributable to the *Insured* will be considered as Business Income.

(9) "***Concurrent Disability***" means one continuous period of *Disability* that is caused or is continued by more than one *Injury* or *Sickness*. Benefits for a *Concurrent Disability* will be paid as if the *Concurrent Disability* was caused by one *Injury* or one *Sickness*. In no event will an *Insured* be considered to have more than one continuous period of *Disability* at the same time.

(10) ***"Conditionally Renewable"*** means that renewal of the policy is based on certain conditions, which shall be clearly described in the policy. A company may decline to renew on the basis of class, geographic area or for stated reasons other than the deterioration of the *Insured*'s health.

(11) ***"Continuable with Guaranteed Premiums"*** means this policy may be terminated only as stated in the termination provision and premiums are guaranteed.

(12) "***Cost of Living Index***" means an index used to measure the rate of change over time of the cost of living, such as the Consumer Price Index for Urban Wage Earners and Clerical Workers published by the United States Department of Labor. The index shall be specified in the policy. The policy shall state that if any index is discontinued or if the calculation of any index is changed substantially, the company may substitute a comparable index subject to approval by the Interstate Insurance Product Regulation Commission. The approval shall be contingent on the company providing the Interstate Insurance Product Regulation Commission with either confirmation that the index has been discontinued or documentation of the substantial change to the index and the reasons supporting the need for the index to be discontinued. The contract shall also state that, before a substitute index is used, the company shall notify the *Owner* of the substitution.

If the index is temporarily delayed, the company may compute the value of any benefits due during the period the index is unavailable using any method that takes into consideration the most recently available information with respect to the index. Once the index becomes available, the company shall adjust any future benefits payable to reflect any benefit overpayments or underpayments made while the index was unavailable.

(13) "***Cost of Sales or Services***" means the *Insured*'s share of all expenses incurred in the *Insured*'s *Occupation* which are directly associated with the generation of *Business Income* by or for the *Business.* These expenses include, but are not limited to:

(a) salaries, fees or other remuneration, including payroll taxes and employee benefits for:
  (i) any person sharing *Business* expense with the *Insured*;
  (ii) any member of the *Insured*'s profession or *Occupation*;
  (iii) any person employed to perform the *Insured*'s duties; or
  (iv) any person for whom services are directly billed to the customer (e.g., paralegal, dental hygienist); and

(b) any expense which is billed, directly or indirectly, to the *Insured*'s customers (e.g., prescription drugs, medical or dental supplies).

(14) "***Death Benefits***" means, subject to satisfaction of all policy terms and conditions by the *Insured*, the benefit to be paid due to the death of the *Insured* resulting from an *Injury* and/or *Sickness*.

(15) "***Disability***" or "***Disabled***" means that due to *Injury* or *Sickness*, the *Insured* meets the definition of *Partial Disability*, *Residual Disability* or *Total Disability*, or the *Insured* meets other *Disability* benefit triggers specified in the policy. Other *Disability* benefit triggers may include:

(a) The *Insured* is terminally ill with a life expectancy of twelve (12) months or less, as certified by a *Physician*;

(b) The *Insured* is unable to perform a specified number of *Activities of Daily Living*. The insurance company shall not require this benefit trigger to require the inability to perform more than two *Activities of Daily Living;*

(c) The *Insured* is cognitively impaired, suffering significant and irreversible deterioration or loss of intellectual capacity, as measured by clinical evidence and standardized tests commonly accepted for use in the medical community.

(d) The *Insured* is confined as an inpatient in a skilled nursing home or *Rehabilitation* facility where a daily room and board charge is made;

(e) The *Insured* is receiving home health care or hospice care;

(f) The *Insured* is a risk for transmitting a contagious disease and the ability to perform the *Substantial and Material Duties* of the *Insured*'s *Occupation* is restricted by a state licensing board or by another appropriate government authority because the risk of transmission of a contagious disease to others with whom the *Insured* may be in contact.

(16) "***Elimination Period***" means, subject to satisfaction of all policy terms and conditions by the *Insured*, the length of time an *Insured* shall wait before *Disability Key Person Replacement* benefit amounts are payable under the policy. Benefit amounts may or may not accrue during the *Elimination Period* at the option of the company. The length of time required to satisfy the *Elimination Period* may, but need not consist of, consecutive units of time. The trigger for the start of the *Elimination Period* shall be commencement of *Disability* for the *Insured* as defined in the policy. The definition or concept may specify a separate *Elimination Period* for *Injury* and a separate *Elimination Period* for *Sickness*. In policies issued with *Benefit Period/Benefit Factor* of less than six months, the application of an *Elimination Period* alone or in conjunction with a qualification period (see definition of *Residual Disability*) cannot result in the postponement of accrual of *Disability* benefit amounts in excess of forty-five (45) days from the commencement of a *Disability*.

(17) "***Guaranteed Renewable***" means that the *Owner* has the right to continue the policy in force by the timely payment of premiums set forth in the policy until at least the *Insured*'s age 65, or as an alternative, until receipt of retirement benefits by the *Insured* under the Social Security Act of the United States. During such period, the company shall not unilaterally make any change in any provision of the policy while the policy is in force, except that the company may make changes in premium rates by classes. This policy may also become *Conditionally Renewable* after the *Insured*'s age 65 at the option of the company.

Drafting Note: See also Amendments section for renewal provision language that may be added at company discretion concerning changes or clarification in applicable law.

(18) "***Hospital***" means an institution that is licensed as a *Hospital* by the proper authority of the state in which it is located. The term does not include any institution, or part thereof, that is used primarily as a clinic, convalescent home, rest home, home for the aged, nursing home, and facilities primarily affording custodial, educational or rehabilitative care.

(19) "***Injury***" means bodily injury resulting from an accident, independent of disease or bodily injury, that occurs on or after the policy effective date and while the policy is in force. The company may indicate that the *Injury* shall be sustained independent of *Sickness*. The definition or concept shall not use words such as "external, violent, visible wounds" or similar words of characterization or description. The definition or concept shall state that the *Disability* shall have occurred within a specified period of time (not less than thirty (30) days) of the *Injury*, otherwise the condition shall be considered a *Sickness*.

(20) "***Insured***" means the person named as the *Insured* on the application

(21) "***Key Person***" means a valued employee or *Owner* that contributes to the earnings of the *Business/Company*.

Drafting Note: The company may choose to limit the allowable percentage of ownership if the *Key Person* owns a part of the business.

(22) "***Mental or Nervous Disorder***" shall be no more restrictive than those classified in the Diagnostic and Statistical Manual of Mental Disorders (DSM), published by the American Psychiatric Association (APA), most current version as of the start of a *Disability*. If the DSM is replaced by the APA, these disorders will be those classified in the diagnostic manual then in use by the APA as of the start of a *Disability*. At the discretion of the company, the definition or concept may refer to: 1. disorders listed in the DSM, or 2. only certain disorders listed in the DSM. If the APA no longer publishes a diagnostic manual or the APA ceases to exist, the company may substitute a comparable diagnostic manual subject to approval by the Interstate Insurance Product Regulation Commission before use of the comparable diagnostic manual.

Drafting Note: The company shall have the ability to exclude certain DSM disorders from the definition or concept. Inclusion or exclusion of DSM disorders may expand or restrict coverage for the *Insured*.

When inclusion or exclusion of DSM disorders restricts coverage, such restrictions shall be consistent with the Interstate Insurance Product Regulation Commission standards for the exclusions and limitations sections of the policy.

(23) "***Noncancellable***" means that the *Owner* has the right to continue the policy in force by the timely payment of premiums set forth in the policy until at least the *Insureds* age 65, or as an alternative, until the *Insured*'s receipt of retirement benefits under the Social Security Act of the United States. During this period, the company shall not unilaterally make any change in any provision of the policy (including premium rates) while the policy is in force. This policy may also become *Conditionally Renewable* after the *Insured*'s age 65 at the option of the company.

Drafting Note: See also Amendments section for renewal provision language that may be added at company discretion concerning changes or clarification in applicable law.

(24) "***Non-Participating***" means that the company does not allocate divisible surplus to the policy and, therefore the *Owner* does not share in the divisible surplus of the company.

(25) "***Occupation***" means a position or professional calling for which a person receives or can receive remuneration from the *Business/Company* at the time of application, or any subsequent occupations which is comparable by duties and/or earnings for the *Owner*.

(26) "***Owner***" means the person or *Business/Company* named as the *Owner* on the application or a later written request for change of ownership which is approved by the company.

(27) "***Partial Disability***" or "***Residual Disability***" means that due to an *Injury* or *Sickness*, the *Insured* is unable to perform one or more, but not all, of the *Substantial and Material Duties* of an *Occupation* for which he or she is qualified by reason of education, training or experience, or the inability to perform all of the *Substantial and Material Duties* of an *Occupation* for which he or she is qualified by reason of education, training or experience for as long as usually required.

(a) The benefit trigger may be described in terms of a reasonable reduction in the *Insured*'s time worked expressed as hours per week or otherwise due to *Disability*.

(i) In order to trigger benefits, an *Insured* shall be working at least 20% but no more than 80% of the time worked just before a *Disability* began.

(ii) The benefit may be stated in terms of paying a stated percentage of the *Total Disability* periodic income benefit amounts, and the stated percentage of the *Total Disability* periodic income benefit amount shall be no less than 20% and no greater than 80%.

(iii) An *Insured* working longer than 80% of time worked just before a *Disability* began may be deemed ineligible for *Partial Disability* benefits.

(iv) An *Insured* working less than 20% of time worked just before a *Disability* began or earning less than 20% of *Prior Business Income* shall be considered working 0% or a 100% reduction in average *Prior Business Income* for the claim time period, subject to satisfaction of all policy terms and conditions by the *Insured*.

Drafting Note: 80% may be reduced to as low as 50% if the company gives prominent notice of the lower threshold.

(b) Alternatively, the benefit trigger may be described in terms of a reasonable reduction in the *Insured*'s *Business Income* due to *Disability*.

(i) An *Insured* shall be earning at least 20% but no more than 80% of *Prior Business Income*.

(A) The benefit may be stated in terms of paying a stated percentage of the *Total Disability* periodic income benefit amounts, and the stated percentage of the *Total Disability* periodic income benefit amount shall be no less than 20% and no greater than 80%.

(B) If the reduction in *Business Income* of an *Insured* for a claim time period (usually monthly) equals or exceeds 80% of average *Prior Business Income* (calculated for a comparable time period), then the *Insured*'s reduction of average *Prior Business Income* shall be considered a 100% reduction in average *Prior Business Income* for the claim time period subject to satisfaction of all policy terms and conditions by the *Insured*.

(C) If the reduction in *Business Income* of an *Insured* for a claim time period (usually monthly) is less than 20% of average *Prior Business Income* (calculated for a comparable time period) it may result in no benefits being paid.

Drafting Note: 80% may be reduced to as low as 50% if the company gives prominent notice of the lower threshold.

(ii) The reduction in *Business Income* of an *Insured* shall be measured by comparing *Business Income* for a claim time period (usually monthly) to average *Prior Business Income* (calculated for a comparable time period).

(A) The percentage of the *Total Disability* periodic income benefit amounts paid shall be calculated by subtracting current *Business Income* for a claim time period (usually monthly) from average *Prior Business Income* (calculated for a comparable period of time), and placing this difference as the numerator over average *Prior Business Income* (calculated for a comparable time period) as the denominator. This fraction shall be converted to a percentage, and the percentage multiplied by the *Total Disability* periodic income benefit amounts to arrive at the *Partial or Residual Disability* benefit paid for a claim time period.

(B) Alternatively, this can be expressed as a formula, such as: the difference between *Prior Business Income* and current *Business Income* divided by *Prior Business Income*, multiplied by the *Total Disability* periodic income benefit amounts.

(c) *Partial* or *Residual Disability* benefits may be predicated upon a qualification period during which the *Insured* shall be *Totally Disabled* before *Partial* or *Residual Disability* benefits are paid. The qualification period may be in lieu of the *Elimination Period* or in addition to the *Elimination Period* but the combined *Elimination Period* and qualification period, if any, for *Partial/Residual Disability* benefits cannot exceed that for *Total Disability*. A company may require care by a *Physician*.

Drafting Note: Benefits may be predicated on the *Insured* being *Totally Disabled*, not on receipt of *Total Disability* benefits. In no event shall the combined *Elimination Period* and qualification period, if any, for *Partial/Residual Disability* benefits exceed that for *Total Disability*.

(28) "***Participating***" means that the company may allocate divisible surplus to the policy and, if it does so, the *Owner* may share in the divisible surplus of the insurance company.

(29) "***Physician***" means a person legally licensed to practice medicine or psychology and acting within the scope of his or her license, or a health care practitioner who is legally licensed, and is acting within the scope of his or her license, to treat an *Injury* or *Sickness* causing *Disability*. The definition or concept may exclude the *Insured*, the *Owner*, the assignee, any person related to the *Insured*, *Owner* or assignee by blood or marriage, any person who shares a significant business interest with the *Insured*, *Owner* or assignee, or any person who is a partner in a legally sanctioned domestic partnership or civil union with the *Insured*, *Owner* or assignee.

(30) "***Preexisting Condition***" means a condition for which symptoms existed that would cause an ordinarily prudent person to seek diagnosis, care or treatment within a one-year period preceding the effective date of the coverage of the *Insured*, or for which medical advice, diagnostic testing, or treatment was recommended by a *Physician* or received from a *Physician,* or for which a qualified health professional prescribed drugs or medications within a two-year period preceding the effective date of the coverage of the *Insured*. The term "coverage of the *Insured*" as used in

this definition or concept refers to initial coverage amounts when a policy is first issued, and it may, at company discretion, also refer to coverage increase amounts which are issued after the policy is first made effective when those coverage increase amounts are subject to evidence of medical insurability. In the case of coverage increase amounts subject to evidence of medical insurability, the time periods in this definition or concept run anew from the effective dates of the increased coverage amounts and apply anew only to the coverage increases.

(31) "***Prior Business Income***" or "***Pre-Disability Business Income***" means the measurement of *Business Income* just before the *Insured*'s *Disability* began. In order to provide an accurate and fair measure of *Business Income* just before an *Insured*'s *Disability* began (which is generally used as one component in *Disability Key Person Replacement* policy language measuring the reduction of *Business Income* to arrive at certain disability policy benefit payment amounts), the company cannot consider *Business Income* which occurred in excess of five years just prior to the *Disability* for which claim is made. The *Business Income* just before *Disability* began may be considered on a monthly basis so long as the monthly basis is consistent with the treatment of other terms referring to *Business income* used in the policy and used to arrive at certain disability policy benefit payment amounts for a claim. If a company considers *Business Income* which occurred in excess of one year (but no more than five years) just prior to the *Disability* for which claim is made, the company shall include policy language which allows for use of the highest level of *Business Income* (during a calendar year or consecutive 12-month basis at the company's option) occurring during the period in excess of one year (but no more than five years) just prior to the *Disability* for which claim is made..

(32) "***Recurrent Disability***" means a *Disability* that occurs within a specified period of time immediately following a prior period of *Disability* and which is due to the same or related cause applicable to the prior period of *Disability*. The specified period of time used to determine whether a subsequent period of *Disability* is a continuation of a prior period of *Disability* cannot exceed 180 days.

(33) "***Rehabilitation***" a program of receiving services that is geared toward aiding an *Insured* to better perform the *Occupation*. Some services of a *Rehabilitation* program may include, but are not limited to: (a) coordination of physical *Rehabilitation* and medical services, (b) financial and business planning, (c) vocational evaluation and transferable skills analysis, (d) career counseling and retraining, (e) labor market surveys and job placement services, and (f) evaluation of necessary worksite modifications and adaptive equipment. Participation in a training or *Rehabilitation* program shall be completely voluntary on the part of an *Insured* and nonparticipation in a program shall not affect the company's determination of whether an *Insured* is *Disabled*.

(34) "***Sickness***" means illness, disease or complications of pregnancy that first manifests itself on or after the effective date of the policy and while the policy is in force. The requirement that the *Sickness* "first manifest itself" shall not override the provision entitled **Time Limit for Certain Defenses Other Than Misstatements in the Application**.

(a) *Disability* benefits for pregnancy will be paid on the same basis as for *Sickness*.

(b) The company shall accept a *Physician*'s diagnosis of complications of pregnancy.

Drafting Note: This Definition or Concept is expressed as a benefit trigger. In lieu of the phrase "first manifests itself" the phrase "is diagnosed or treated" may be used. See Permissible Limitations or Exclusions section, ***Preexisting Conditions*** for how the meaning of the Definition or Concept *Sickness* interrelates with the meaning of the Definition or Concept *Preexisting Condition* and permissible *Preexisting Condition* time limitations on benefits on or after the policy effective date. This Definition or Concept may interrelate with other policy provisions, riders, amendments or endorsements.

(35) ***"Substantial and Material Duties"*** means the important tasks, functions and operations generally required for an *Occupation* that cannot be reasonably omitted or modified. This term may include an *Insured*'s ability to work on a regular work schedule for a specified number of hours.

(36) "***Total Disability***" means a definition of *Disability* no more restrictive than indicating that an *Insured* is unable to perform the *Substantial and Material Duties* of the *Occupation*.

(a) A company may require care by a Physician. If it can be shown that the Insured has reached his or her maximum point of recovery, yet is still Disabled under the terms of the policy, the regular care and attendance of a Physician on a regular basis is not required.

(b) The Insured is not working in any other Occupation for the Business/Company

(c) A company may require there is no reasonable job or worksite modification which can be made.

(d) The policy may allow the *Insured to work* in another occupation for the *Business/Company*, but are *Disabled* from their *Occupation*.

(e) The policy may require a minimum loss of income

C. REQUIRED PROVISIONS

Each policy shall contain all of the provisions as set forth below. The company may, at its option, substitute for one or more of the provisions below corresponding provisions of different wording approved by the Interstate Insurance Product Regulation Commission as not less favorable in any respect to the *Insured* and/or *Owner*.

(1) **Benefit Payment Methods**. The methods and amounts of benefit payments will be displayed on the specification page. Any amount paid will not exceed the *Aggregate Benefit Amount*.

(2) **Claim Forms.** The policy shall include a provision obligating the company to furnish a claimant with claim forms. Upon receipt of a notice of claim, the company will furnish to the claimant forms usually furnished by the company for filing proofs of loss. If the forms are not furnished by the company within fifteen (15) days after the giving of such notice, the claimant shall be deemed to have complied with the requirements of the policy as to proof of loss when the claimant submits written proof covering the occurrence, character and extent of the loss for which claim is made within the time stated in the policy for filing proofs of loss.

(3) **Conformity with Interstate Insurance Product Regulation Commission Standards.** The policy shall state that it was approved under the authority of the Interstate Insurance Product Regulation Commission and issued under the Commission standards. The policy shall also state that any provision of the policy that on the provision's effective date is in conflict with the applicable Interstate Insurance Product Regulation Commission standards for this product type in effect as of the provision's effective date of Commission contract approval is hereby amended to conform to the applicable Interstate Insurance Product Regulation Commission standards in effect as of the provision's effective date of Commission policy approval.

(4) **Eligibility.** The policy shall include provisions addressing any conditions of eligibility that may apply on or after the effective date of the policy.

(5) **Entire Contract.** The policy shall include a provision regarding what constitutes the entire contract between the company and the *Owner*. No document may be included by reference. This provision shall also state that no change in the policy shall be valid until approved by an executive officer of the company, and such approval needs to be endorsed or attached to the policy for the approved change to be binding on the *Owner*.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternals to implement their respective articles and bylaws. See Appendix B.

(6) **Evidence of Insurability.** If the policy requires evidence of insurability on or after the effective date of the policy, the policy shall explain those conditions, which may include, but not be limited to, medical, financial and occupational requirements, as applicable. Evidence of insurability shall not be required for eligibility for benefits under in-force coverage. The company may not use medical evidence of insurability on or after the effective date of the policy to affect renewal of an in-force policy. Except as provided in the *Change of Occupation* provision, the company may not use evidence of insurability on or after the effective date of the policy to transfer an *Insured* to a less favorable underwriting class.

(7) **Grace Period.**

(a) The policy shall include a grace period provision and describe the conditions of the provision.

(b) A grace period shall be provided for the payment of any premium due except for the first, as follows:

(i) For premiums paid on a weekly basis, at least seven (7) days;

(ii) For premiums paid on a monthly basis, at least ten (10) days; and

(iii) For all other premium modes, at least thirty-one (31) days.

(c) The coverage shall continue in force during the grace period. However, if premium is not paid by the end of the grace period, coverage will automatically end on the date of the last period for which premium was paid.

(d) In a policy which the company reserves the right to refuse renewal, the grace period provision shall state that the *Owner* has a grace period unless, not less than 30 days prior to the renewal date, the company has delivered to the *Owner* (or sent by first class mail to the *Owner*) written notice of the company's intent not to renew the policy beyond the period for which premium has been accepted by the company. The provision shall state that the company may refuse renewal of the policy, only as of the renewal date occurring on, or nearest the policy's first anniversary, or as of an anniversary of such renewal date, or at the option of the company, as of the renewal date occurring on or nearest the anniversary of the policy's date of last reinstatement.

(8) **Legal Actions.** The policy shall include a provision stating that no action at law or in equity shall be brought to recover on the policy prior to the expiration of sixty days after written proof of loss has been furnished in accordance with the requirements of the policy. The policy shall also state that no such action shall be brought after the expiration of three years after the time written proof of loss is required to be furnished.

(9) **Misstatements in the Application.** The policy shall include one of the following provisions:

(a) **Incontestable.** At the discretion of the company, a policy which the *Owner* has the right to continue in force subject to its terms by timely premium payments until at least the *Insured*'s age 50 (or for at least five (5) years in the case of a policy issued after the *Insured*'s age 44) may include an Incontestable provision in lieu of the Time Limit for Certain Defenses provision. This Incontestable provision, if used by the company, shall state that, after the initial coverage or subsequent increases in coverage has been in force for a period of two years during the lifetime of the *Insured*, the coverage shall become incontestable as to statements made in the application. The company may add a phrase to this Incontestable clause giving the company the right to toll the running of the two-year period during any period when the *Insured* is disabled.

(b) **Time Limit for Certain Defenses.** The policy may include this provision stating that, after two (2) years from the date of issue of the initial coverage or subsequent increases in coverage, no misstatements by the *Insured* in his or her application for insurance shall be used by the company to void the policy or deny a claim for loss incurred or disability* commencing after the expiration of such two-year period. The two-year period shall not apply to fraudulent misstatements made by the applicant.

Drafting Note: This provision is not using the terms "*Disability*" or "*Disabled*" as defined in the definitions or concepts section and purposely uses a small "d." This is necessary so that losses incurred or disabilities commencing on or after the coverage effective date which are: (a) due to *Injury* or *Sickness* and are not *Preexisting Condition*s (i.e. meet the requirements for *Disability* or *Disabled*), or (b) due to conditions disclosed in the application, but the company takes no express underwriting action for those conditions, are included within the parameters of these standards for this specific provision dealing with application misstatements.

(10) **Notice of Claim.** The policy shall include a provision for notice of claim. Such a provision shall state that written notice of claim shall be given to the company within twenty (20) days after the

occurrence or commencement of any loss covered by the policy or as soon thereafter as reasonably possible. Notice given by the *Owner* to the company at an office designated by the company or to any authorized agent of the company shall be deemed notice to the company.

(11) **Participation.** If the policy is *Participating*, the conditions of the participation shall be included in the policy.

(12) **Payment of Claims.** The policy shall include a provision stating to whom indemnities shall be paid and the terms and conditions for the payment under the policy.

(13) **Payment of Premium.** The policy shall include a provision describing the terms and conditions for the payment of premiums. The policy shall provide for payment of the initial premium on or before the policy effective date. A refund of unearned premium shall be made in the event of death or at the *Owner*'s request to discontinue coverage.

Drafting Note: This provision should not be construed to abrogate any rights which an applicant has under a conditional receipt, interim insurance agreement or other similar form issued by the company when the company or its agent accepts initial premium for coverage at time of application.

(14) **Physical Examinations and Autopsy.** The policy shall include a provision stating that the company, at its expense, shall have the right and opportunity to examine the person of the *Insured* when and as often as it may reasonably require for the duration of a claim under the policy and to make an autopsy, at its expense, in case of death where it is permitted by law.

(15) **Proofs of Loss.** The policy shall include a provision describing how to submit proofs of loss. This provision shall state that written proof of loss shall be furnished to the company at an office address specifically identified by the company in the policy.

(a) In the case of claims for loss for which the policy provides any monthly payment contingent upon continuing loss, written proof of loss shall be furnished to the company within ninety (90) days after termination of the period for which the company is liable.

(b) In the case of claims for loss other than loss for which the policy provides any periodic payment contingent upon continuing loss, written proof of loss shall be furnished to the company within ninety (90) days after the date of loss.

(c) Failure to furnish proof of loss within the time required shall not invalidate nor reduce any claim if it was not reasonably possible to give proof within such time, provided such proof is furnished as soon as reasonably possible and in no event, except in the absence of legal capacity of the *Insured*, later than one year from the time proof is otherwise required.

(16) **Reinstatement.** The policy shall include a reinstatement provision describing the company procedures when a renewal premium is not timely paid by an *Owner*.

(a) When the *Owner* does not timely pay a renewal premium and the company or an agent duly authorized to accept premium payment subsequently accepts payment of the renewal

premium without requiring an application, this provision shall state the policy is reinstated as of the date of receipt of the renewal premium.

(b) When the *Owner* does not timely pay a renewal premium and the company or its agent requires an application for reinstatement, this provision shall state that the policy is reinstated upon approval of the application by the company; or, if the company does not act to approve the application, the policy is reinstated on the 45th day following the date of the receipt of the application for reinstatement unless the company has given notice to the *Owner* of company disapproval of the application previous to the expiration of the forty-five (45) day time limit. Evidence of insurability may be required.

(c) This provision shall state that the reinstated policy shall cover loss resulting from accidental injury sustained on or after the date of reinstatement and loss due to *Sickness* as may begin on or after the date of reinstatement. The company may add riders, amendments or endorsements to the reinstated policy otherwise complying with these standards.

(d) Any premium accepted with a reinstatement shall be applied to a period for which the *Owner* did not previously pay premium, but not to any period more than sixty (60) days prior to the date of reinstatement. (The last sentence may be omitted from any policy which the *Owner* has the right to continue in force subject to its terms by timely premium

payment until at least the *Insured*'s age 50 or, in the case of a policy issued after the *Insured*'s age 44, for at least five years from its date of issue.)

(e) Misstatements in the application for reinstatement are subject to the same standards for misstatements in the original application. The company may impose a reasonable time limit to apply for reinstatement, but in no event less than six months from the termination date of the policy.

(17) **Required Total Disability Benefit**. A *Disability Key Person Replacement* policy shall provide a benefit for at least *Total Disability*.

(18) **Right to Examine Policy.** The Right to Examine Policy provision appearing on the cover page or that is visible without opening the policy shall provide a minimum of thirty (30) days for the *Owner* to examine the policy, beginning on the date the policy is received by the *Owner*. The provision shall include a requirement for the return of the policy to the company or an agent of the company, and state that the policy is considered void from the beginning and the parties shall be in the same position as if no policy had been issued. The provision shall state that if the policy is returned, a refund of any premium paid, including any policy fees or other charges, shall be made.

(19) **Suspension of Coverage While in Military Service.**

(a) The policy shall include a provision that entitles persons in military service to have their coverage suspended during a period of military service. To be entitled to coverage suspension an *Insured* shall:

(i) Be in the military service (land, sea or air) of any nation or international authority or in a reserve component of the armed forces of the United States, including the National Guard; and

(ii) Have entered voluntarily or involuntarily upon active duty or had active duty voluntarily or involuntarily extended (other than for the purpose of determining physical fitness and other than for training). The policy may state that there shall be no entitlement to coverage suspension for a period of active military training lasting three months or less.

(b) The company may restrict the period of suspension of coverage to five (5) years beyond the date of suspension but not to exceed the period of active duty. The policy shall state that in the implementation of the coverage suspension:

(i) The *Owner* shall make a written request to the company or its agent for coverage suspension providing information that the *Insured* is eligible for the coverage suspension; and

(ii) The company shall suspend the coverage for eligible *Insured*s from the earlier of the date of receipt of the *Owner*'s written request for coverage suspension or the date military service begins (or a later date if requested by the *Owner*) and refund any unearned premiums for the period of suspension.

(c) The policy shall state that there will be no coverage during the period of suspension, and the *Owner* will have to pay no premiums during the period of coverage suspension. Upon termination of active duty, the *Owner* shall have the right to resume coverage without the *Insured* giving evidence of insurability, and the resumption of coverage shall be on the same basis as before the coverage suspension took effect. No exclusion, limitation or modification of coverage shall be imposed in connection with coverage of the health or physical condition of an *Insured* entitled to resumption of coverage (or the health or physical condition of any other person covered by the policy as a dependent who is not entitled to exercise resumption of coverage). These are the exceptions:

(i) The exclusion, limitation or modification was stated in the policy prior to the period of suspension (in the case of a waiting period, the waiting period had not been completed prior to the period of suspension); or

(ii) The company may exclude, limit or modify coverage for any *Disability* that occurred during the period the policy was suspended. If coverage is excluded, only disabilities from a *Sickness* which first manifests itself or an *Injury* which occurs after the policy is restored will be covered.

(d) The policy shall state that in calculating the expiration of a waiting period for a condition that did not arise during a period of active duty, the entire waiting period shall equal the waiting period that would have applied before coverage suspension took effect and time

elapsed before and after the period of suspension shall be used to determine satisfaction of the entire waiting period.

(e) Coverage shall be resumed as of the date of termination of active duty subject to written application and payment of the required premiums not less than ninety (90) days after the date of termination of the period of active duty. Required premiums will be the same as they would have been if coverage had remained in force without any coverage suspension, and required premiums for resumption of coverage shall be paid for a period commencing no earlier than the date of termination of active duty.

(20) **Time Limit for Certain Defenses Other Than Misstatements in the Application.** The policy shall include a provision that no claim for loss incurred or disability commencing after two years from the policy issue date shall be reduced or denied on the ground that a disease or physical condition not excluded from coverage by name or specific description effective on the date of loss had existed prior to the effective date of coverage of the policy. This time limit shall not apply to fraudulent misstatements in the application.

However, for underwritten coverage increases issued subsequent to initial policy issuance, the policy may state that a new two-year time period applies from issuance of the underwritten coverage increases, and that any such new two-year time period applies only to the underwritten coverage increase. This time limit shall not apply to fraudulent misstatements in the application for coverage increase.

Drafting Note: This provision does not use the term "*Disability*" or "*Disabled*" as described in the definitions or concepts section because the statutory origin of the language to be used in this required policy provision requires a broader meaning.

(21) **Timely Payment of Claims.** The policy shall include a provision stating when a company shall be required to pay claims. Indemnities provided under the policy for any loss, other than loss for which the policy provides any periodic payment, shall be paid immediately upon receipt of due written proof for such type of loss. Subject to due written proof of loss, all accrued indemnities for loss for which the policy provides monthly payment shall be paid no less frequently than monthly and any balance remaining unpaid upon termination of liability of the company shall be paid immediately upon receipt of due written proof of loss. The policy shall state that if a claim is paid more than 30 days after a company receives satisfactory proof of loss, as described in the policy, the delayed payment shall be subject to simple interest at the rate of 10% per year beginning with the 31st day after receipt of satisfactory proof of loss and ending on the day the claim is paid.

D. OPTIONAL PROVISIONS

The Interstate Insurance Product Regulation Commission may approve the following optional provisions if the provisions meet the standards as set forth below. The company may, at its option, use a provision of different wording approved by the Interstate Insurance Product Regulation Commission that is not less favorable in any respect to the *Insured* and/or the *Owner*. The company may include in the policy one or more of these optional provisions.

(1) **Arbitration.** Only arbitration provisions that permit voluntary post-dispute binding arbitration shall be allowed in policy forms. With respect to such a provision, the following guidelines apply:

(a) Arbitration shall be conducted in accordance with the rules of the American Arbitration Association ("AAA"), before a panel of 3 neutral arbitrators who are knowledgeable in the field of *Disability Key Person Replacement* insurance and appointed from a panel list provided by AAA.

(b) Arbitration shall be held in the city or county where the *Owner* is located.

(c) The cost of arbitration shall be paid by the company, to include any deposits or administrative fee required to commence a dispute in arbitration, as well as any other fee including an arbitrator's fee.

(d) Where there is an inconsistency between these guidelines and AAA rules, these guidelines control.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternals to implement their respective articles and bylaws. See Appendix B.

(2) **Assignment.** The policy may include an assignment provision. The provision shall describe the procedures for an assignment. Unless otherwise specified by the *Owner*, an assignment will take effect on the date the assignment is signed subject to any payments made or actions taken by the company prior to receiving notice of the assignment. The provision may state that the company shall not be liable for the validity of the assignment.

(3) **Change of *Occupation*.** The policy may include a provision regarding when an *Insured* becomes injured or sick after having changed his *Occupation* to one classified by the company as more hazardous than that stated in the policy or when an *Insured* is doing for compensation anything pertaining to a more hazardous *Occupation* as classified by the company. This provision may state that the company, upon receipt of proof of such change of *Occupation*, shall pay only such portion of indemnities provided in the policy as the premium paid would have purchased at the rates and within the limits fixed by the company for the more hazardous *Occupation.*

(a) When an *Insured* changes an *Occupation* to one classified by the company as less hazardous than that stated in the policy, the company, upon receipt of proof of such change of *Occupation*, shall reduce the premium rate accordingly, and the company shall return the excess pro-rata unearned premium from the date of change of *Occupation* or from the policy anniversary date immediately preceding receipt of proof of change of *Occupation*, whichever date is more recent.

(b) This provision shall state that the classification of occupational risk and the premium rates shall be those last approved for the company by the Interstate Insurance Product Regulation Commission prior to the occurrence of the loss for which the company is liable or prior to date of proof of change in *Occupation.*

(4) **Misstatement of Age, Sex or Tobacco Use Status.** The policy may include a provision that shall state that if the *Insured*'s age, sex or tobacco use status has been misstated, all amounts payable under the policy shall be amounts as the premium paid would have purchased at the correct age, sex, or tobacco use status. The company may terminate coverage and refund premiums if the correct age is outside the issue age ranges of the form.

(5) **Ownership.** The policy may include an ownership provision. If included, the provision shall describe the procedures for designating or changing the *Owner* and indicating when the designation is effective.

(6) **Procedures for Review of a Denial of a Claim.** The policy may include a provision for review of denial of a claim. If included:

(a) The provision shall state that the *Insured* must request, in writing, a review of the denial of claim within a specified number of days after the *Insured* receives notice of the denial.

(b) The policy shall include a provision that an *Insured* has the right to review, upon request and free of charge, copies of all documents, records, and other information relevant to the *Insured*'s claim for benefits, and the *Insured* may submit written comments, documents, records and other information relating to the claim for benefits.

(c) The policy shall include a provision that the insurance company will review an *Insured*'s claim after receiving the *Insured*'s request and send the *Insured* a notice of its decision within a specified number of days after the insurance company receives the request, or within another specified period of days if special circumstances require an extension. The number of days shall be specified in the policy. The insurance company will state the reasons for its decision and refer the *Insured* to the relevant provisions of the policy. The insurance company will also advise the *Insured* of the *Insured*'s further appeal rights, if any.

(7) **Supplemental Benefits.** The policy may include supplemental *Disability Key Person Replacement* benefits for specified *Injury*, *Sickness* or *Injury* and *Sickness*, or for other specified business expenses, such as an option for a future increase of the *Covered Disability Key Person Replacement*, which would not be subject to evidence of insurability. The terms and conditions for such supplemental benefits shall be specified in the policy. Such supplemental benefits shall be in addition to, and not in lieu of, *Disability Key Person Replacement* benefits payable under the policy.

(8) **Termination of benefits** – A policy may include a provision to terminated benefits upon the death of the Insured.

(9) **Unpaid Premium.** The policy may include a provision stating that, upon the payment of a claim under the policy, any premium then due and unpaid may be deducted from the claim payment.

(10) **Waiver of Premium.**

(a) The policy may include a provision stating that, for a time period of not more than ninety (90) days of *Total Disability*, which is eligible for payment under the policy (any days of such *Total Disability* occurring during an *Elimination Period* shall count toward the ninety (90) day time period), the company shall:

(i) Refund to the *Owner* any premiums that were due and paid for the policy while the *Insured* was *Totally Disabled*; and

(ii) Waive the payment of premiums that become due for as long as the *Total Disability* continues. At the option of the company, the company may limit the waiver of premium so that the company waives the payment of premiums that become due for as long as the *Total Disability* continues, but not beyond the *Benefit Period/ Benefit Factor* or *Aggregate Benefit Amount*.

(b) The policy shall also state that, after *Total Disability* ends and the policy is still inforce, the *Owner* shall:

(i) Resume the payment of premiums by paying the pro-rata portion of any premium until the next premium due date; and

(ii) Continue to pay premiums as provided for in the policy after payment of the pro-rata portion of any premium until the next premium due date.

(c) If the company requires proof of *Total Disability* for premiums to be waived, the policy shall state that satisfactory proof of *Total Disability* shall be provided to the company for premiums to be waived.

Drafting Note: A company may expand the waiver of premium benefit to additional types of *Disability* benefits under the policy.

E. PERMISSIBLE LIMITATION OR EXCLUSION BASED ON THE UNDERWRITING PROCESS FOR EACH PROPOSED INSURED

(1) Any limitation or exclusion based on information disclosed by the proposed *Insured* in the application for the policy, or identified for the proposed *Insured* during the underwriting process of such application, is subject to applicable law in the state where the policy is delivered or issued for delivery and must be based on the Standards for Forms Used to Limit or Exclude Individual Disability Income Insurance Policy Coverage Based on the Underwriting Process for Each Proposed *Insured*, as Applicable to the Following Products:

- Disability Income Plans;
- Buy-Sell Plans;
- Key Person Plans; and
- Business Overhead Expense Plans.

F. PERMISSIBLE LIMITATIONS OR EXCLUSIONS

The Interstate Insurance Product Regulation Commission may approve the following limitations or exclusions if they meet the standards set forth below. The company may include in the policy one or more of these limitations or exclusions.

(1) **Aeronautics.** *Disability* that results from hang-gliding, skydiving, parachuting, ultralight, soaring, ballooning and parasailing may be limited or excluded.

(2) **Aviation.** Loss that results from aviation, other than as a fare-paying passenger on a scheduled or charter flight operated by a scheduled airline, may be limited or excluded. "Aviation" may also include travel in an aircraft or device used for testing or experimental purposes, used by or for any military authority, or used for travel beyond the earth's atmosphere.

(3) **Benefit Reduction On Account of Other *Disability Key Person Replacement* Coverage.**

(a) The provision shall state that, if the total monthly amount of *Disability Key Person Replacement* in force under all policies issued to the *Owner* or assignee, exceeds the monthly *Covered Disability Key Person Replacement Expenses* of the *Business*, the company shall be liable only for a proportional amount of benefits under the policy with this type of a provision. The proportion of benefits for which the company is liable shall be calculated as follows:

(i) The numerator will be the amount of monthly or lump sum *Disability Key Person Replacement* benefit under this policy;

(ii) The denominator will be the total amount of monthly benefits under all valid *Disability Key Person Replacement* monthly benefits coverage payable to the *Owner* or assignee while the *Insured* is *Disabled;* and

(iii) Multiply the fraction represented in (i) and (ii) by the amount of *Covered Disability Key Person Replacement*.

Drafting Note: The use of the term “monthly” does not preclude a company from estimating payments on another reasonable periodic basis as set forth in the policy.

(b) The provision shall also state that in no event will the total monthly amount of benefits paid under all valid *Disability Key Person Replacement* coverage be reduced below the sum of three hundred dollars.

(c) The use of the term “coordination of benefits” shall not be acceptable in describing this provision.

(4) **Chemical Dependency.** Subject to the applicable law in the state where the policy is delivered or issued for delivery, loss that results from alcoholism or drug addiction may be limited or excluded.

(5) **Cosmetic Surgery.** Loss that results from cosmetic surgery may be limited or excluded. However, cosmetic surgery shall not include reconstructive surgery when the surgery is incidental to or follows surgery resulting from trauma, infection or other diseases of the involved part and reconstructive surgery because of congenital disease or anomaly resulting in a functional defect.

(6) **Disabilities Not Verifiable by Objective Medical Means.**

(a) Loss that results from a specific *Injury* or specific *Sickness* not verifiable by objective medical means may be limited to the minimum available *Aggregate Benefit Amount* offered by a company for coverage of disabilities resulting from *Injury* or *Sickness*. The policy shall not exclude coverage for such disabilities from the policy.

(b) An *Injury or Sickness* is considered not verifiable by objective medical means if it cannot be confirmed by medically acceptable clinical or laboratory diagnostic techniques. As used in this item, "Objective Medical Means" means medical evidence consisting of signs, symptoms, and laboratory findings. A diagnosis based solely on an *Insured*'s statement of symptoms will not be considered Objective Medical Means of verifying an *Injury* or *Sickness*.

(7) ***Disabled Insured* Residing Outside the United States, Territories or Possessions of the United States or Canada, as Applicable (the "Specified Area").** While a *Disabled Insured* is residing outside the Specified Area, benefits for such *Disability* may be limited to a period of time not less than twelve (12) months and subsequently suspended. The limitation and suspension may apply whether or not the *Disability* began while the *Insured* was residing outside the specified area. If benefits have been suspended, the policy shall state that upon return to the specified area, a *Disabled Insured* may resubmit a notice of claim for benefits under the policy.

(8) **Felony.** Loss that results from the *Insured*'s commission of or attempt to commit a felony may be limited or excluded.

(9) **Illegal Occupation or Activity.** Loss that results from the *Insured*'s being engaged in an illegal occupation or activity may be limited or excluded.

(10) **Incarceration.** *Disability* benefits may be limited or excluded during a period of legal incarceration in a penal or correctional institution of more than seven (7) days or during a period of legal detainment of more than seven (7) days where the period of legal incarceration or legal detainment results in an inability of the *Insured* to meet any work requirements contained in the definitions of *Disability* set forth in the policy form.

(11) **Intoxicants, Narcotics or Other Controlled Substances.** Subject to the applicable law in the state where the policy is delivered or issued for delivery, loss that results from the *Insured*'s legal intoxication defined by state law where the loss occurs, or loss that results from the use of narcotics

or other controlled substances, unless administered on the advice of a physician, may be limited or excluded.

(12) ***Mental or Nervous Disorders.*** Subject to the applicable law in the state where the policy is delivered or issued for delivery, loss that results from *Mental or Nervous Disorders* may be limited or excluded. If coverage is to be limited, coverage shall be provided for at least twelve (12) months.

(13) **Normal Pregnancy or Childbirth.** Loss that results from normal pregnancy or childbirth may be limited or excluded. Such limitation or exclusion shall not apply to complications of pregnancy as diagnosed by a *Physician*.

(14) ***Preexisting Conditions.***

(a) Any provision included in a policy limiting or excluding coverage for losses incurred or disabilities arising from *Preexisting Condition*s shall clearly define the limitation or exclusion and disclose such limitation or exclusion in the policy.

(b) Beginning no more than twelve (12) months following the effective date of the policy, the policy shall not limit or exclude coverage for a loss due to a *Preexisting Condition* if the application for the insurance does not seek disclosure of prior illness, disease or physical conditions or prior medical care and treatment and the *Preexisting Condition* is not specifically limited or excluded by the terms of the policy.

(c) For a disease or physical condition that has not been excluded from coverage by name or specific description effective on the date of loss, losses incurred or disabilities commencing on or after the coverage effective date due to that disease or physical condition shall be covered immediately when:

(i) The disease or physical condition is an *Injury* or *Sickness* as described in the Definitions and Concepts section and is not a *Preexisting Condition* as described in the Definitions and Concepts section; or

(ii) The disease or physical condition is disclosed in the application, but the company has taken no express underwriting action for the disease or physical condition.

Drafting Note: This provision does not use the term "*Disability*" or "*Disabled*" as described in the Definitions and Concepts section because this provision requires a broader meaning.

(15) **Recreational Activity (Avocation, Hobby or Sport).** *Disability* that results from participating in one or more of the following recreational activities may be limited or excluded: motor sports events, racing, speed or endurance contest (auto, truck, cycle, boat), technical rock or mountain climbing, scuba diving in depths greater than one hundred (100) feet, including decompression, cave, and mixed gas diving, or dives requiring specialized equipment, or bungee jumping. The policy may also limit or exclude *Disability* that results from an *Insured*'s participation in any sport for wage, compensation or profit.

(16) **Specified Conditions.**

(a) Loss that results from specified conditions may be limited may be limited to a period of not less than twelve (12) months or the maximum *Benefit Period/Benefit Factor*, whichever is less. The policy shall not exclude coverage for such Disabilities. The specified conditions may include any one or more of the following: fibromyalgia; chronic fatigue syndrome; myofacial pain syndrome, environmental allergic illness, including but not limited to sick building syndrome and multiple chemical sensitivity; carpal tunnel syndrome not requiring surgery; musculoskeletal and connective tissue disorders of the neck, shoulder and back, including any disease or disorder of the cervical, thoracic and lumbosacral back and its surrounding soft tissue, including sprains and strains of joints and adjacent muscles.

(b) The specified conditions shall not include any of the following: scoliosis, spinal fractures, osteopathies, traumatic spinal cord necrosis, radiculopathies documented by an electromyogram, spondylolisthesis grade II or higher, myelopathies and myelitis, demyelinating diseases, and spinal tumors, malignancies or vascular malformations.

(17) **Suicide.** Loss that results from attempted suicide or intentionally self-inflicted injury may be limited or excluded.

(18) **War, Riot and Insurrection.** Loss that results from one or more of the following may be limited or excluded as follows:

(a) Declared or undeclared war or act of war;

Drafting Note: Companies may consider additional language and in that case the Interstate Insurance Product Regulation Commission shall use the following guidelines: Declared or undeclared war or act of war is understood to be military activity by one or more national governments and does not include terrorist acts, other random acts of violence not perpetrated by the *Insured*, or civil war or community faction. Civil activity as a whole cannot be excluded, except for direct participation or instigation by the *Insured*.

(b) Participation in a riot or insurrection; or

Drafting Note: Companies may consider additional language and in that case the Interstate Insurance Product Regulation Commission shall use the following guidelines: An exclusion for riot or insurrection is limited to instigators and those pursuing participation and does not include civil commotion, disorder, injury as an innocent bystander, or injury for self-defense.

(c) Active duty in the armed forces of any nation or international governmental authority or units auxiliary thereto or the National Guard or similar government organizations (except that this limitation or exclusion shall not be construed to deny the *Owner* any right to suspend coverage while the *Insured* is serving in the armed forces of any nation or international governmental authority or units auxiliary thereto or the National Guard or

similar government organizations. The Suspension of Coverage While In Military Service provision describes how suspension of coverage works.)

Drafting Note: The Interstate Insurance Product Regulation Commission will maintain a comprehensive listing of state-specific requirements for those limitations and exclusions listed above that indicate "subject to applicable law in the state where the policy is delivered or issued for delivery," based on information reported by Member States.

G. PROHIBITED LIMITATIONS AND EXCLUSIONS

The following limitations and exclusions are prohibited:

(1) **Complications of Pregnancy.** Disabilities due to complications of pregnancy as diagnosed by a *Physician* shall not be the subject of a Permissible Limitation or Exclusion.

(2) **Discretionary Clauses.**

(a) No policy may contain a provision:

(i) Purporting to reserve sole discretion to the insurance company to interpret the terms of a policy; or

(ii) Specifying a standard of review upon which a court may review denial of a claim or any other decision made by an insurance company with respect to an *Insured*.

(3) **Probationary Period for Specified Medical Conditions.** Absent medical underwriting, *Disability* benefits shall not be limited or excluded through the use of a policy provision establishing a probationary period for specified medical conditions.

H. BENEFIT PROVISIONS

(1) **Cost of Living Index Guarantee.** *Disability Key Person Replacement* benefits or calculations that are subject to modifications by a *Cost of Living Index* shall provide that in no event will benefits subject to modifications by a *Cost of Living Index* be reduced:

(a) Beneath benefit amounts that the *Owner* initially purchased; or

(b) Beneath benefit amounts that the *Owner* reduced by his or her action after initial purchase of coverage unrelated to a cost of living modification.

(2) ***Death Benefit*.** *Death Benefits*, if included, shall be payable in addition to any *Key Person Replacement* benefit payable. The amount payable shall be a lump sum not to exceed the equivalent of three (3) monthly *Disability Key Person Replacement* benefits payable under the policy.

(a) If this *Death Benefit* is contingent upon death while *Disabled* ("Survivorship Benefit"),

the company may require the *Insured* to satisfy the *Elimination Period*, be determined by the company to be *Disabled* and be receiving *Disability Key Person Replacement* benefits prior to the date of death.

(b) The policy shall clearly state the conditions under which any *Death Benefit* may be payable.

(3) **Exchange Privilege**. Policy may allow the *Insured* to exchange the policy to a disability income policy if they no longer a *Key Person*.

(4) **Extension of Benefits.** If the *Aggregate Benefit Amount* has not been paid during the *Benefit Period/Benefit Factor,* the *Benefit Period/Benefit Factor* may be extended for a specified period of time (up to a period of 6 months) beyond the maximum *Benefit Period/Benefit Factor* stated in the policy.

(5) **Rate Increases Based on Attained Age or Duration of the Policy.** A *Disability Key Person Replacement* policy whose rates increase due to the attainment of certain ages by the *Insured* or due to the duration of the policy shall include an applicable schedule of rates showing the rates associated with attained ages of the *Insured* or duration of the policy in a prominent place, such as the specifications page.

(6) **Regular Occupation**. *Insured* may be considered *Totally Disabled* if they are working in another *Occupation* for the *Business/Company*, but are *Totally Disabled* from their regular *Occupation.*

(7) **Required *Total Disability* Benefit.** A *Disability Key Person Replacement* policy shall provide a benefit for at least *Total Disability*. *Disability Key Person Replacement* policies providing benefits only for *Partial Disabilities* or any disabilities less than *Total Disability* shall not be approved by the Interstate Insurance Product Regulation Commission. At the company's option, a *Disability Key Person Replacement* policy may or may not provide coverage for disabilities in addition to a required benefit for *Total Disability*.

(8) **Rights to Purchase Future Benefits Without Evidence of Medical Insurability**. A *Disability Key Person Replacement* policy that offers the *Owner* the right to purchase additional *Disability Key Person Replacement* coverage for the *Insured* in the future without evidence of medical insurability shall clearly specify the amount of future coverage that may be available for purchase and any requirements necessary (e.g. financial or occupational underwriting) to qualify for the future coverage.

(a) A policy may state that any additional coverage will be provided by the purchase of a new policy or an increase in the coverage level of the existing policy. If the additional coverage will be provided by the issuance of a new policy, the policy shall clearly state that the new policy will have the same terms as those policies being issued by the company on the date of purchase of the new policy. The additional coverage purchased shall be subject only to any limitations and exclusions that may be in effect for the existing policy on the effective date of the additional coverage; however, no new medical limitations or medical exclusions shall be imposed on the additional coverage.

(9) **Termination of Insurance under the Policy.**

(a) The policy shall include a provision stating how and when insurance under the policy may end. The provision may include termination, as applicable, at the earliest of:

(i) The expiry date shown in the policy, unless an *Owner* renews the policy as provided in the renewal provisions of the policy;

(ii) The end of the period for which premium has been paid, if premium is not paid by the end of the grace period;

(iii) The date the company receives the *Owner*'s written request to end the policy;

(iv) The expiration of applicable Suspension of Coverage period(s) specified in the policy if the *Insured* does not request that suspension end before such expiration; or

(v) The date the *Insured* dies.

(vi) The date the *Insured* no longer has any ownership or is no longer employed by the *Business/Company*.

(vii) Once the lump sum or *Aggregate Benefit Amount* has been paid.

(viii) Date the *Insured* terminates the *Key Person* terminates their *Occupation* or is no longer *Actively Working Full Time* for any reason other than Disability

§ 4. ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES

A. MEMBERSHIP

(1) The certificate may include a provision stating that the *Insured* and/or *Owner* is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance.

B. MAINTENANCE OF SOLVENCY

(1) The certificate may include a provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.

Appendix A
Flesch Methodology

The following measuring method shall be used in determining the Flesch score:

(1) For policy forms containing 10,000 words or less of text, the entire form shall be analyzed. For policy forms containing more than 10,000 words, the readability of two, 200-word samples per page may be analyzed instead of the entire form. The sample shall be separated by at least 20 printed lines.

(2) The number of words and sentences in the text shall be counted and the total number of words divided by the total number of sentences. The figure obtained shall be multiplied by a factor of 1.015.

(3) The total number of syllables shall be counted and divided by the total number of words. The figure obtained shall be multiplied by a factor of 84.6.

(4) The sum of the figures computed under (2) and (3) subtracted from 206.835 equals the Flesch reading ease score for the policy form.

(5) For purposes of (2), (3), and (4), the following procedures shall be used:

(a) A contraction, hyphenated word, or numbers and letters, when separated by spaces, shall be counted as one word;

(b) A unit of words ending with a period, semicolon, or colon, but excluding headings and captions, shall be counted as a sentence; and

(c) A syllable means a unit of spoken language consisting of one or more letters of a word as divided by an accepted dictionary. Where the dictionary shows two or more equally acceptable pronunciations of a word, the pronunciation containing fewer syllables may be used.

(6) The term “text” as used in this section shall include all printed matter except the following:

(a) The name and address of the company; the name, number or title of the policy; the table of contents or index; captions and subcaptions; specifications pages, schedules or tables; and;

(b) Any policy language which is drafted to conform to the requirements of any federal law or regulation; any policy language required by any collectively bargained agreement; any medical terminology; any words which are defined in the policy; and any policy language required by law or regulation; provided, however, the company identifies the language or terminology excepted by this paragraph and certifies, in writing, that the language or terminology is entitled to be excepted by this paragraph.

(6) At the option of the company, riders, endorsements, amendments, applications and other forms made a part of the policy may be scored as separate forms or as part of the policy with which they may be used.

Appendix B
Fraternal Benefit Societies

Fraternal Benefit Societies ("fraternals") are subject to separate fraternal codes in all jurisdictions due to their unique structure, operations and legal obligations. The Drafting Notes included at the ends of the **AGREEMENTS** standards, the new section entitled **ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES,** and **Appendix B** are included in the standards to allow fraternals to experience the benefits of participating in the single point of filing and review process that the IIPRC offers, without jeopardizing their ability to meet their unique obligations and to operate as required or permitted by law.

By law, a fraternal is defined by five basic elements:

1. one without capital stock;

2. one conducted solely for the benefit of its members and their beneficiaries by providing life, health and annuity benefits and by operating one or more social, educational, charitable, patriotic, or religious purposes for the benefit of members and others;

3. one that is a benevolent and charitable institution and not for profit;

4. one operated on a lodge system that may carry out charitable and other activities; and

5. one that has a representative form of government with a governing body and direct election of its members.

The laws governing fraternals impact the standards in several ways. Fraternals are required by law to issue insurance contracts that incorporate the laws of the Society and the application for membership. Thus, the contract must consist not only of the policy or certificate issued, and the application for insurance, but also the application for membership and the articles and bylaws. Further, the laws governing fraternals require or permit that the articles and bylaws address the structure of lodges, membership requirements, form of governance, grievance procedures, and eligible beneficiaries. Any amendments to the articles or bylaws made after issuance of a certificate must be applied consistently to all members retroactively. However, no amendment shall eliminate or reduce contractual benefits.

By law, fraternals are membership organizations. Because of this, the law refers to the insurance forms issued to members of a fraternal as "certificates" or "certificates of membership and insurance". Further, due to the membership requirements, fraternal certificates often include a provision stating that the *Insured* and/or *Owner* is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance. In addition, fraternal certificates may include a Maintenance of Solvency provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.