**DATE:** January 19, 2018 **[Updated February 6, 2018, As Noted]**

**TO:** IIPRC Product Standards Committee ("PSC")

**FROM:** Industry Advisory Committee

**SUBJECT:** IIPRC 5 Year Review For Phase 8: Individual Disability Income

Response to IIPRC Report and Recommendations Dated January 2018 ("Report")

## Substantive Change Item #2, Definition of Benefit Period, Report Pages 5-9

***Lump Sum Payment Issues:***

The definition that we had proposed included references to a lump sum benefit, and the latest draft by the PSC proposes to eliminate this type of benefit. We respectfully request reconsideration of the lump sum benefit for the following reasons:

This type of benefit has been approved in 46 states, and the lump sum nature of the benefit was not the cause of disapproval in the other states.

Technically, a lump sum concept negates the need for a Benefit Period definition or concept. However, when we were reviewing the existing definition/concept and we focused on suggesting changes to allow a 3 month benefit period, we noted that the current definition/concept presumed that all benefits would be paid on a periodic basis, usually monthly, and this contradicts the availability of a lump sum payment benefit, so we inserted the lump sum possibility into the Benefit Period definition/concept.

A somewhat catastrophic or long-term disability is an appropriate fit for a lump sum benefit payment. Also, this type of benefit payment would be less expensive than a traditional disability income product and, therefore, more attainable for a person who may not able to afford traditional disability income insurance.

A lump sum payment may be payable when the insured meets the definition of Disability in the policy and that Disability is expected to last at least 365 days, as certified by a Physician. A lump sum payment may also be available for situations where the insured is terminally ill, with a life expectancy of 12 months or less, as certified by a Physician (see Appendix A, page 13, definition of Disability or Disabled, other triggers). The predetermined lump sum amount would be paid as soon as the insured meets the appropriate benefit trigger, so a Benefit Period concept is not really needed. An Elimination Period may be required at the option of the company. Once the determined longevity of the Disability is demonstrated, there is no need for an insured to wait for a benefit payment.

We believe that there is a need for a lump sum payment benefit for catastrophic type Disability benefits that are more affordable and, therefore, more readily available to the general public. This type of a benefit could also play well with the mentality of the millennials who don't typically buy traditional DI products.

***Benefit Period Parameter Issues:***

We wish to confirm that the current proposed language would allow companies to vary the benefit Elimination Periods to provide 0, 7, 14, 30 and 60 days.

We wish to confirm that the current proposed language would allow a maximum benefit period of 6, 12, 18, 24 and 60 months.

**Substantive Change Item #3, Redefining Guaranteed Renewable and Noncancellable, Report Pages 10-14**

**and**

**Substantive Change Item #13, Insurance With Other Companies, Report Pages 57-61**

**[2/6/18: We withdrew this comment on January 23, 2018]**

**Substantive Change Item #5, Partial/Residual Disability, Report Pages 20-27**

***Lump Sum Payment Benefit Issues:***

With regard to the proposed rewrite of these definitions/concepts, we wish to point out that depending on what decision is made regarding lump sum payment benefits, the references to "periodic income benefits" are not consistent with the lump sum payment benefit.

***Elimination Period and Qualification Period Issues:***

The companies had suggested that the definition/concept of Partial/Residual Disability allow an option to require Total Disability prior to a period of a Partial Disability. The current PSC draft does not allow for this option under Partial Disability, but it does under Residual Disability. Companies want a Partial Disability benefit as a less expensive alternative to Residual (which requires an earnings test to determine benefits), and they further want to be able to require Total Disability first, for some period of time, and still extend the option of Partial Disability benefits following that period of Total Disability.

On Report page 25, there is the following suggested language:

"(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 may not exceed six months due to use of a qualification period alone or in conjunction with an *Elimination Period*. 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 qualification period result in the postponement of payment of *Partial or Residual Disability* benefits for a time period in excess of six months from commencement of the insured being *Totally Disabled.*"

If a person purchases an IDI policy with a 365 day Elimination Period for Total Disability, in order to keep expenses low, that policy, according to the PSC proposed language above, would have to provide for Partial Disability benefits starting at 180 days from the date of Disability.

The Drafting Note language is a bit confusing. It's fine to say that the insured has to be Totally Disabled during the qualifying period (not necessarily collecting benefits); however, the second sentence seems to indicate that the Partial Disability benefits would have to start prior to the end of the policy Elimination Period of 365 days in our example. The Elimination Periods for Total Disability and Partial/Residual Disability are the same. The PSC may not have considered the possibility of a policy with a longer Elimination Period for Total Disability, such as 365 days, when they included their suggested language.

It is not common for IDI policies to have extra long Elimination Periods, but they are available and they are purchased for various reasons, including cost savings.

The companies question why the PSC would prescribe a lesser maximum qualification period for a secondary/optional Disability benefit when most member compacting states do not have this requirement. The intent of this requirement seems to be so that companies do not market an IDI policy with an unreasonably long qualification period in addition to a lengthy elimination period (e.g. a 1 year elimination period plus a 2 year qualification period is of questionable benefit to an insured). Most states have a 365 or 730 day maximum Elimination Period for Total Disability, so a ceiling at least that high would make more sense. Alternatively, a maximum qualification period in addition to an Elimination Period either in total number of days or relative to the Elimination Period would make more sense.

## Substantive Change Item #7, Definition of Total Disability, Report Pages 35-37

The companies did not intend to make the definition more stringent than the definition in Group DI – and we believe the problem is with our request to use the word "all" in connection with the inability to perform Material and Substantial Duties. We are agreeable to delete the word "all".

We do, however, respectfully request that the PSC give further consideration to discontinuing the initial 12-month "own occupation" requirement and allowing an "any occupation for which the insured is qualified by reason of education, training, and experience" definition of disability from day one, as an option.

Additionally, further consideration should also be given to allowing for other disability benefit triggers (see Appendix A, page 13, definition of Disability or Disabled, other triggers) to follow a period (possibly two years) of occupational disability, such as own or any occupation.

The requested considerations are consistent with what is offered in the GDI standards, but more importantly, these options and triggers would certainly give companies a much better chance to offer affordable options to the under-served population that cannot afford high-end disability policies. Our previous comments still stand on this particular topic.

## Substantive Change Item #14: Incidental Benefits, Report Pages 62-68

The companies are agreeable to delete items ***D., F. and G.*** ***[2/6/18: We corrected during call that C. was to be left as is.]***

With regard to item ***H. COBRA Premium Benefit***, companies currently offer this benefit in their IDI policies and it was approved in every state, except Connecticut. While monthly disability income benefits replace a certain portion of a person's income, it does not take into account additional monthly expenses that arise, solely from the disability, such as COBRA continuation premiums. These premiums can be rather excessive and are above and beyond expenses that are paid with a person's wages, prior to disability. So, not only is the disabled person taking in less than their net earnings prior to disability, but this person is incurring additional expenses that were not part of the equation before disability. At a point in time when a person needs health insurance the most, he/she is in danger of not being able to afford the sudden additional cost for this insurance. This is most certainly a concern for people with individual insurance. Not all group policies offer this benefit and not all employers offer this benefit, so it is not a "group" only benefit.

With regard to item ***P. Retirement Benefit,*** many companies offer this benefit in IDI policies in some form or fashion and states have been approving it. Whether this is part of the base policy or, perhaps more appropriately, as a rider to a policy, the benefit is self-evident. Consider the effects of a long-term disability on a person's ability to save toward retirement. A disabled person is living on less income than prior to disability, especially those who do not have unearned income. Typically, medical and other expenses have increased, while static expenses have not been eliminated (house, food, clothing, etc.). For many people, just making ends meet is a struggle. Once disability benefits end, typically at age 65, if not before, this person needs some hope of a certain level of retirement income. If a disability has prevented this person's ability to save toward retirement and, due to loss of employment, has also caused loss of any employer contributions, what hope does this person have of being even reasonably self-sufficient, once disability benefits end? This benefit allows for a continuation of savings, strictly earmarked for retirement, in the event of a long-term disability, which is important concept in any type of disability policy.

## Substantive Change Item #15: Application Questions Lookback Periods, Report Pages 69-74

Only 20% of all states, including non-compacting states, limit the look-back periods to something other than "ever" for health-related questions. This is an important risk concern for DI companies. It is one of the driving concerns making companies reluctant to use the IIPRC for filing DI products.

In classifying health risks, companies use detailed underwriting manuals from reinsurance companies, which have been developed over time using a significant amount of data. The manuals allow for consistent and concise underwriting, based on the facts disclosed for a proposed insured, starting with the application. These manuals give clear distinctions of risk, how to categorize them, what specific parameters to use, including length of time from diagnosis of health conditions.

According to these manuals, there are specific health issues that warrant an "ever" look-back. These types of conditions can lie dormant for years or can progress at such a rate as to be missed, if underwriting with a limited look-back period, and yet are known to manifest into long-term disabilities. Based on these manuals, many of these conditions require the action of either declining an offer, or modifying the offer, for example, with a rating or limiting coverage, regardless of when the condition manifested, due to the probability of a future disability. In many cases, like cancer for example, the treatment itself is cause for concern. Radiation, chemotherapy and other forms of treatment can leave the patient with other serious health issues, which may not manifest into a condition or disability for an extended period of time. All of these considerations come into play when determining the correct course of action at underwriting.

We propose that the PSC consider a reasonable compromise to parse out the health issues of greatest concern to the companies, as listed below, allowing for an unlimited look-back for those conditions. Doing so would go a long way toward alleviating companies' underwriting concerns. These types of health conditions include:

- AIDS/HIV
- Aneurysm
- Arthritis
- Cancer
- Chronic kidney disease
- Chronic obstructive pulmonary disease
- Coronary artery disease
- Dementia
- Emphysema
- Heart attack
- Heart valve disease
- Hepatitis
- Multiple sclerosis
- Stroke
- Transient ischemic attack.

These conditions are certainly not ones that a person would be in danger of forgetting, nor are they inconsequential when it comes to appropriately determining the risk profile of a proposed insured.

Allowing this compromise would alleviate a big concern for companies when considering using the IIPRC for their IDI filings.

### Clarification Item #8, Minimum Loss Ratios, Report Page 105-106 [2/6/18: Updated]

As proposed on page 105, the standard would require companies to affirm that the ALR is the same for all multi-life discount levels. This presumes that all multi-life discounts are funded exclusively by reduced claim costs. However, there are other reasons why a company might offer a multi-life discount. A discount might be partially funded by reduced operating expenses – for example, by using list bills rather than traditional billing practices. In such a case, the multi-life plan would have a different ALR than policies where no discount is available.

Additionally, the proposed language implies that the only permissible discounts are multi-life discounts. Several IDI companies offer discounts on traditional individual sales as well. In previous filings, the companies have been required to report ALRs for all of their discounts.

We suggest that the PSC consider eliminating the requirement to use the same ALR for all levels, but retain the requirement that the company report an ALR for each discount. Accordingly, Item B.(1)(b) would read a s follows:

B. ACTUARIAL SUBMISSION REQUIREMENTS

(1) An actuarial memorandum prepared, dated, and signed by a member of the American Academy of Actuaries who provides the information shall be included and shall provide at least the following information:

(b) ~~For multi-life plans,~~ The company may use "premium class" to establish discounts based on case characteristics, documented in the Actuarial Memorandum, such as, for example, number of lives, who pays the premium, ~~and/or~~ premium mode and/or reduced operating expenses. The criteria for the discount should be applied consistently between groups. ~~In addition, the company shall submit adequate experience data to support the use of the same Anticipated Loss Ratio (ALR) Minimum Loss Ratio (MLR)~~ requirement for ~~multi-life plans utilizing a discount as for those plans where a discount is applicable and not applicable~~. Such experience data should indicate that any expense savings occurring as a result of the discount are accompanied by a commensurate reduction in expected claims costs for ~~multi-life~~ plans where the discounts are applied.

***[2/6/18: Updated]***

***Clarification Item #9, Minimum Loss Ratios for Multi-Life Discount Levels, Pages 107-108***

For consistency with the suggestions made above to Clarification Item #8, we suggest that the PSC consider eliminating all references to multi-life, thus clarifying that the requirement applies to all discounts regardless of when they apply.

On page 108, we suggest removing the term "multi-life," and "level" so that it reads:

"A description of the determination of the MLR applicable to the policy form, including, when applicable, each ~~multi-life~~ discount ~~level~~."

***Appendix A – Recreational Activities, Page 20***

Typical IDI policies don't have exclusions listed in the policy for hazardous recreational activities. These exclusions or limitations are usually handled at underwriting, on an individual basis, based on answers to questions regarding training, intensity, duration, exertion, use of specialized equipment, frequency, etc. The IIPRC currently has specific standards for a form used to exclude or limit benefits based on the underwriting process.

However, to accommodate the trend toward "buying" versus being "sold" insurance (people want to buy everything online, even insurance), and to further aid companies in creating disability products that are affordable to the masses, it will become increasingly important to be able to create policies that have these types of exclusions or limitations built-in.

To that end, we want the ability to include these types of exclusions or limitations. It gets to the heart of the risk and to help alleviate your concerns, some qualification could be included, as follows:

***Scuba Diving*:** depths greater than 100 feet, including decompression, cave, and mixed gas diving, or dives requiring specialized equipment.

***Rock or Mountain Climbing***: untethered indoor rock climbing; rock or mountain climbing with the use of equipment, such as ropes, pulleys, harness, ice axe.

***Submitted by the Industry Advisory Committee:***

Hugh Barrett, Mass Mutual Life
Jason Berkowitz, IRI
Michael Hitchcock, Pacific Life
Amanda Matthiesen, AHIP
Emily Micale, ACLI
Charles Perin, Nationwide
Shawn Pollock, Mutual of Omaha