

State Farm
Corporate Headquarters
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March 1, 2017

RE: Standards for Individual Disability Income
IIPRC-DI-I-H11-POL
IIPRC-DI-I-H11-RATE

Thank you for the opportunity to provide comments on the Compact's Standards for Individual Disability Income. We appreciate the Compact's recent courteous and professional assistance with our filing under these same standards. Based on our reading and conversations, we have provided the suggestions below for your consideration.

For ease of reading, we have capitalized and italicized words defined within the Standards for Individual Disability Income so as to match their presentation therein. When used below, these terms are intended to reflect their meanings as defined by the Compact.

IIPRC-DI-I-H11-POL § 3.B.(18) Partial Disability

The inclusion of provisions that offer *Partial Disability* benefits are optional for any policy currently filed with the Compact. We recognize that these standards are intended to create a minimum standard for coverage to ensure that the benefit offered has real economic value to the insured.

The *Partial Disability* benefit currently does not allow for a contract filed with the Compact to require a period of *Total Disability* before *Partial Disability* benefits are payable. The majority of state regulations allow this requirement, including many of participating states within the Compact.

The ability to require a period of *Total Disability* before a period of "*Partial Disability*" is included in the Compact's standards for *Residual Disability*. Although the benefit provided by *Residual Disability* could potentially be lower, the administration expense for claims under the *Residual Disability* standard is expected to be higher due to the need to periodically collect and review *Earnings* information, determine the percentage reduction of the insured's *Prior Earnings*, and adjust the claim payment accordingly. Administering a claim based on *Partial Disability* alone may also be viewed as an additional expense since it is not the primary intent of a Disability Income policy.

Including the option to require a period of *Total Disability* preceding a period of *Partial Disability* would allow more companies to include *Partial Disability* benefits, particularly for more short-term and simplified disability products.

Currently, the administrative expense may discourage companies from including any *Partial Disability* benefit, and the inclusion of an easily administered *Partial Disability* benefit would be of value to an insured. The more favorable state regulations may also discourage the submission of contracts under the IIPRC standards.

IIPRC-DI-I-H11-POL § 3.B.(26) Residual Disability

We believe that the wording of this section could be improved to better reflect the Compact's intent, to reduce industry confusion, and to remove perceived loopholes in the standards.

Residual Disability states under (b) that if an insured suffers a reduction in average *Prior Earnings*, then the insured will be eligible for payment of the *Total Disability* benefits under the policy "subject to the satisfaction of all policy terms and conditions." The definition of *Total Disability* includes that the insured "is not in fact engaged in any job or *Occupation* for wage or profit." The standards also do not specifically address a minimum length of time that *Residual Disability* benefits should be made available after a period of *Total Disability*. We understand the intent of this provision is neither to deny benefits to an insured suffering a loss of average *Prior Earnings* equal to or greater than 80% who is working, nor is it intending to prescribe a specific length of the *Residual Disability* benefit. To resolve this loophole, we would suggest the following revision:

- (b) The reduction in *Earnings* of an insured for a claim time period (usually monthly) which shall trigger payment of a *Residual Disability* benefit shall be 20% (a company may lower this percentage but cannot raise it) of average *Prior Earnings* (calculated for a comparable time period). If the reduction in *Earnings* of an insured for a claim time period (usually monthly) equals or exceeds 80% of average *Prior Earnings* (calculated for a comparable time period), then the insured's ~~reduction of average *Prior Earnings* shall be eligible for payment of the *Total Disability* benefits under the policy considered a 100% reduction in average *Prior Earnings*~~ for the claim time period subject to satisfaction of all policy terms and conditions by the insured.

Residual Disability (d) outlines both that a period of *Residual Disability* can be required to follow a period of *Total Disability* and that "*Residual Disability* benefits cannot be denied for a time period in excess of six months due to a qualification period alone or in conjunction with an *Elimination Period*." We believe the Compact's intent would be better portrayed if a drafter's note regarding the latter sentence involving the use of a qualification period was added, a definition of what is meant by qualification period in this context for clarity, or a certification on the Disability Income checklist for an insurer to verify it does not use an initial qualification period.

IIPRC-DI-I-H11-RATE § 2.B.(1)(g) Minimum Loss Ratio

We recommend that the Compact adopt standards which mirror the NAIC Guidelines for Filing of Rates for Individual Health Insurance Forms. These NAIC guidelines specify minimum loss ratios (MLR) for Loss of Income insurance as follows:

- Optionally Renewable (60%),
- Conditionally Renewable (55%),
- Guaranteed Renewable (50%), and
- Non-Cancellable (45%).

These NAIC guidelines also include possible adjustments to these MLR's for both Low Average Premium Forms and High Average Premium Forms. Using the NAIC guidelines will allow for consistency between policies filed with the Compact and those that are not. Also, a lower MLR standard

allows for a higher contingency and risk margin, which can give companies more freedom to explore and provide new, innovative benefits to customers.

Thank you for your consideration of these amendments to the Compact's Standards for Individual Disability Income. These revisions should help companies offer affordable coverage that meet consumer needs and provide additional clarity for insurers of the Compact's regulatory intent.

Sincerely,

State Farm Product Management