

SUMMARY OF THE PRODUCT STANDARDS COMMITTEE RESPONSE TO COMMENTS REGARDING  
THE PROPOSED INDIVIDUAL DISABILITY INCOME UNIFORM STANDARDS

*September 20, 2011*

**STANDARDS FOR INDIVIDUAL DISABILITY INCOME APPLICATION**

Standards Provision	Comment	Product Standards Committee (PSC) Response to Comments
<p>1. Mix and Match: Scope Section</p>	<p>Prior to the recommendation of the disability income uniform standards, the Industry Advisory Committee requested the PSC consider recommending that the Individual Disability Income Insurance Application Standards be available for mix and match.</p> <p>The IIPRC Office noted to the PSC that this recommendation was not included in the proposed uniform standards recommended to the Management Committee.</p>	<p>The PSC suggests amending the Mix and Match statement in the Individual Disability Income Application Standards to allow mix and match of Compact-approved applications with state-approved disability products. The PSC does not recommend mix and match for other individual disability income uniform standards.</p> <p>The PSC suggests replacing the current provision:  <b>“Mix and Match:</b> These standards are not available to be used in combination with State Product Components as described in Section 110(b) of the Operating Procedure for the Filing and Approval of Product Filings.”</p> <p>with the following language:</p> <p><b>“Mix and Match:</b> These standards are available to be used in combination with the following State Product Components: a policy form, rider, amendment or endorsement for disability income plans, buy-sell plans, key-person plans and business overhead expense plans, and as provided in Section 110(b) of the Operating Procedure for the Filing and Approval of Product Filings.”</p> <p>The PSC also acknowledged that an application for individual life and disability income could be filed with the Compact provided the application fully complied with the applicable life application uniform standards and disability income application uniform standards, respectively, in accordance with Section 103(c) of the Operating Procedure for the Filing and Approval of Product Filings.</p>
<p>2. Technical Correction</p>	<p>Massachusetts pointed out a numbering typo on page 16, Section 4.F(1)(f)</p>	<p>PSC agrees with technical change.</p>

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**STANDARDS FOR INDIVIDUAL DISABILITY INCOME INSURANCE POLICIES**

Standards Provision	Comment	Product Standards Committee (PSC) Response to Comments
<p>1. DEFINITIONS AND CONCEPTS Section 3.B(17): <b><i>“Injury”</i></b></p>	<p>Illinois commented that the current definition of “Injury” includes the phrase “independent of all other causes” and is overly broad, ambiguous and places too much burden on the insured.</p> <p>The Industry Advisory Committee responded to Illinois’ comment with suggested language to change “independent of all other causes” to “independent of disease or bodily injury”.</p>	<p>The PSC recommends amending the definition of “Injury” to change the phrase “independent of all other causes” to independent of disease or bodily injury”.</p>
<p>2. DEFINITIONS AND CONCEPTS Section 3.B (25): <b><i>“Preexisting Condition”</i></b></p>	<p>Illinois commented that the current definition of “Preexisting Condition” allows preexisting conditions “for which symptoms existed that would cause a prudent person to seek diagnosis, care or treatment within a <b>two-year period</b> preceding the effective date of the coverage of the insured.” (Emphasis added). Illinois only permits a 12 month period for these type of symptoms and permits a two year period for any disease or illness diagnosed or treated before the effective date of coverage.”</p> <p>The Industry Advisory Committee responded to Illinois’ comment with suggested language to change the two-year period to one-year for which symptoms existed that would cause an ordinarily prudent person to seek diagnosis, care or treatment.</p>	<p>The PSC recommends amending the definition of “Preexisting Condition” to change the period in the first clause of the definition from “two-year period” to “one-year period” as follows:</p> <p><b><i>“Preexisting Condition”</i></b> means a condition for which symptoms existed that would cause an ordinarily prudent person to seek diagnosis, care or treatment within a <b>one-year period</b> preceding the effective date of the coverage of the insured, or for which medical advice or treatment was recommended by a Physician or received from a Physician within a two-year period preceding the effective date of coverage of the insured.” (Emphasis added).</p>

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<p>3. PERMISSIBLE LIMITATIONS OR EXCLUSIONS Section 3.F(11): <b>Preexisting Conditions</b></p>	<p>Illinois commented that the permitted limitation or exclusion for Preexisting Conditions did not contain a time frame for how long the company may limit or exclude a preexisting condition not disclosed in the application.</p> <p>The Industry Advisory Committee responded to Illinois' comment noting that this provision allows a company to limit or exclude preexisting condition that has been disclosed by an applicant on the application and is in lieu of refusal to insure or charging a higher premium. The IAC noted the policy would set forth the nature of the limitation or exclusion and the effective date and any applicable expiration date.</p>	<p>The PSC does not suggest an amendment to the language as the term "Preexisting Condition" is already defined in Section 3.B, and once amended as suggested above, will comply with Illinois' time limits.</p> <p>The PSC also notes that Illinois' concern is addressed in the <b>Required Provisions</b> Section [3.C(18)] the "<b>Time Limit for Certain Defenses Other Than Misstatements in the Application</b>" as the policy must 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."</p> <p>Thus, a company could not reduce or deny a claim after two years from the policy issue date because the policyholder had not listed a Preexisting Condition.</p>
<p>4. TIME LIMIT FOR CERTAIN DEFENSES Sections 3.C(8)(b) and 3.C(18)</p>	<p>Illinois commented that these two provisions appear redundant.</p>	<p>The PSC does not suggest any changes.</p> <p>The PSC notes that these sections have different meanings and applications. Section 3.C(8)(b) requires a two-year time limit for certain defenses for misstatements made by the insured on the application. Section 3.C (18) requires a two year time limit for certain defenses for other than misstatements in the application including a disease or physical condition that had existed prior to the effective date of coverage.</p>
<p>5. TIME OF PAYMENT</p>	<p>Illinois notes that this section requires a</p>	<p>The PSC suggests including a provision for interest on the late</p>

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<p>OF CLAIMS Section 3.C(19)</p>	<p>provision in the policy stating when a company shall be required to pay claims but does not require interest that interest be paid when claims not timely paid. Illinois requested the standard provide for payment of interest by the insurer on claims not paid within 30 days.</p> <p>The Industry Advisory Committee responded to Illinois' comment noting that the life insurance uniform standards require a provision for interest on death benefit claims not paid in a timely manner. The IAC suggested the following language by changing the title of the section from Time of Payment of Claims" to "Timely Payment of Claims" and adding the following language to the end of this section "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 31<sup>st</sup> day after receipt of satisfactory proof of loss and ending on the day the claim is paid."</p>	<p>payment of claims so that Compact filings have a uniform provision regarding interest when a company does not provide timely payment of claims. A uniform provision will also assist in uniform administration of a Compact filing for interest due on late payments and provide uniform protections to consumers in all Compacting States for a provision in Compact-approved forms for interest on late payments. An interest on late payment is a required provision in the individual life insurance uniform standards.</p> <p>The PSC suggests amending Section 3.C(19) as follows: rename the title of the section "Timely Payment of Claims" and adding the following language to the end of this section "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 31<sup>st</sup> day after receipt of satisfactory proof of loss and ending on the day the claim is paid."</p> <p>The PSC notes that the Oklahoma Insurance Department objected to the inclusion of a uniform provision because the provision for interest due on the late payment of claims is included in their unfair claims practices laws and not as a product content requirement. The Oklahoma Insurance Department would prefer a general statement that would defer to each state's law with regards to the timely payment of claims.</p>
<p>6. PERMISSIBLE LIMITATIONS OR</p>	<p>Oklahoma commented that it does not permit an exclusion for loss that results from the</p>	<p>The PSC does not suggest any changes. The PSC considered Oklahoma's proposed change and believed the current language</p>

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<p>EXCLUSIONS. Intoxicants, Narcotics or Other Controlled Substances Section 3.F(9)</p>	<p>insured's legal intoxication defined by state law. Oklahoma is concerned that states, like Oklahoma, that have a low threshold blood alcohol level for legal intoxication, would make this exclusion broad enough that it could preclude benefits for any injury resulting from the blood alcohol exceeding the limit for legal intoxication even if the insured is not engaged in a law-breaking activity (such as drunk driving) that caused the loss, e.g., falling off a ladder.</p> <p>Oklahoma has suggested an amendment to the first clause of the permitted limitation or exclusion for Intoxication, Narcotics or Other Controlled Substances (Section 3.F(9)) as follows: Loss that results from the insured's <u>violation of state law relating to intoxication</u> <del>legal intoxication</del> as defined by <u>the law of the state</u> <del>law</del> where the loss occurs . . . .</p> <p>The Industry Advisory Committee responded to Oklahoma's comment noting that it is not a good public policy to require coverage for loss that results from a person's intoxication. The IAC notes this is one of the risks companies generally limit or exclude in order to make disability coverage more affordable.</p>	<p>addresses the public policy concern of excluding losses related to operating a vehicle or other dangerous activity while legally intoxicated. The PSC noted this is a common exclusion in disability income policies.</p> <p>The PSC noted the Oklahoma Insurance Department still has the concern that this limitation is too broad.</p>
<p>7. PERMISSIBLE LIMITATIONS AND EXCLUSIONS. War,</p>	<p>Oklahoma does not permit exclusion for loss that results from declared or undeclared war or act of war except when the insured is</p>	<p>The PSC does not suggest any changes.</p> <p>The PSC provided clarification that terrorism cannot be excluded</p>

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<p>Riot and Insurrection. Section 3.F(16)</p>	<p>serving in the military or voluntarily working in a war zone. Oklahoma’s language was crafted after the Murrah Building bombing 1995 to insure acts of terrorism could not be excluded.</p> <p>The Industry Advisory Committee responded to Oklahoma’s comment noting that the term “terrorism” is not included in the language of the exclusion and the drafting note explicitly provides “Declared or undeclared war or act of war is understood to be military activity by one or more national governments and <b>does not include terrorist acts</b>, or other random acts 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.” (Emphasis added).</p>	<p>under the Uniform Standards and that the drafting notes provide detailed guidance on the scope of declared or undeclared war or act of war.</p>
<p>8. DEFINITIONS AND CONCEPTS. <b>“Partial Disability”</b> and <b>“Residual Disability”</b> Section 3.B (18) and (26)</p>	<p>Massachusetts commented that the terms “Partial Disability” and “Residual Disability” are interchangeable and could cause confusion for consumers. If these terms mean the same thing, why do the standards contain both terms.</p>	<p>The PSC does not suggest any changes.</p> <p>The PSC provided clarification that these two terms are mutually exclusive and that the form should not use both terms. The PSC clarified that the last sentence in each definition should be interpreted that use of the term “partial disability” is an alternative to use of the term “residual disability” and “residual disability” is an alternative to the term “partial disability and these terms should not be used together.</p>

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9. PERMISSIBLE LIMITATIONS AND EXCLUSIONS. Section 3.F and INCIDENTAL BENEFIT PROVISION	Massachusetts commented that the lists of permissible limitations and exclusions and incidental benefit provisions do not contemplate future development of benefits or limitations than currently in the market. Massachusetts suggests outlining a process for reviewing items not on these lists as the products evolve.	The PSC does not suggest any changes at this time especially with permissible limitations and exclusions as those are intended to be fairly prescribed. The PSC is agreeable to considering possible amendments to the standards and also believes additional standards would be necessary if the IIPRC wished to develop a uniform standard or process for consideration of additional or innovative incidental benefit provisions.
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<p>10. Technical Corrections</p>	<p>Industry Advisory Committee suggests changing the phrase in the Mix and Match provision from “individual life insurance and annuity contracts” to individual life insurance and annuity forms” to make consistent with other uniform standards.</p> <p>The Industry Advisory Committee suggests deleting the phrase “and benefit features” from Section 1.A(1) to make consistent with changes made to proposed DBOE uniform standards.</p> <p>The Industry Advisory Committee suggests Section (c) of the Reinstatement provision on page 14 be reworded to make consistent with changes made to proposed DBOE uniform standards. Change “otherwise complying with the standards of this document” to “complying with these standards.”</p> <p>The Industry Advisory Committee suggests removing the note in the section of “Suspension of Coverage While In Military Services.”</p> <p>The Industry Advisory Committee suggests formatting changes to Section 3.H BENEFIT PROVISIONS.</p>	<p>PSC agrees with these technical changes.</p>
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