DATE: May 4, 2012
TO: IIPRC Product Standards Committee (PSC)
FROM: Industry Advisory Committee
SUBJECT: Group Term Life Policy/Certificate Standards Dated May 1, 2012

We are submitting the following comments:

Page 1, Scope, Second Paragraph
We are OK with the first sentence. However, we do not understand the intent of the change made to the second sentence, and seek clarification.

§4. POLICY AND CERTIFICATE PROVISIONS
B. ASSIGNMENT

Pages 12-13, Item (1)(a), Item (1)(b) which has been deleted; PSC Note
In its previous position, this language was a “may”, and by deleting it, it has become a “shall” because item (1)(a) would not allow any restrictions on assignments. Since group term life insurance does not generate cash values, having collateral assignments as a “shall” would be inappropriate.

We suggest changing item (1)(a) to say:

“except in the case of collateral assignments and in situations where restrictions are required for purposes of satisfying applicable laws or regulations.”

G. DATE INSURANCE ENDS UNDER THE POLICY / TERMINATION

Page 15, Title
We suggest that a title of “TERMINATION” would beg the question “of what?” We suggest changing the title to say: “TERMINATION OF INSURANCE UNDER THE GROUP POLICY”.
I. ELIGIBILITY PROVISIONS

Page 17, Item (1)(c)

Because Noncontributory insurance may require evidence of insurability, we suggest the following changes in the first sentence:

“The provision shall specify the process for enrolling for Contributory and Noncontributory insurance under the policy.”

L. EVIDENCE OF INSURABILITY

Page 18, Item (1)

It has come to our attention that the language we offered is not correct – Noncontributory coverage is coverage for which the employer/policyholder pays the premium, but there are situations where some of this coverage may be subject to evidence of insurability. For Noncontributory insurance, people in the same class and with equal expectations of life must be covered, but there is nothing in any state law that would prohibit an employer from requiring evidence of insurability for a certain level of coverage to keep the plan affordable. Accordingly, this item needs to be deleted.

The language included original for this section should be reinstated. We should not be focusing on when evidence will not be required – we should be focusing on when it will be required so that the certificate can describe the requirements. Companies have to file these provisions for prior approval and at that time the IIPRC will see what is being required. If a company files a requirement that only disabled late entrants have to submit EOI, it will be obvious that this is not allowed, and we do not need a standard to allow the IIPRC not to approve such a requirement.

As it read before, item (1) said:

“The certificate shall include a provision describing the evidence of insurance requirements, if any. If evidence of insurability will be required, the provision shall identify the applicable evidence requirements, such as those:’

Page 19, Item (a)

We suggest that you delete “provided the eligibility provisions are consistent with Item (1)” since it is no longer needed.
M. FILING A CLAIM

Page 21, Item (2)(ii)(A)

You have suggested allowing an email or on-line capability. We suggest that you revise the item as follows:

"A Covered Person may give notice of claim within 20 days of the date of loss by:

1) calling the insurance company using the telephone number shown on the cover page or first page of the certificate; or

2) emailing the insurance company, if such alternative method of communication is made available by the insurance company."

Existing items (B), (C) and (D) would follow. Then we suggest adding a new sub-item (iii):

“(iii) Alternatively, the Covered Person may complete an on-line claim form if such capability is made available by the insurance company.”

Previous sub-item (iii) becomes new sub-item (iv).

S. PAYMENT OF PREMIUM
Page 26, Item (1)(i)

We suggest changing “form” to say “policy” for consistency with the rest of the standard.

S. PAYMENT OF PREMIUM
Page 27, Item (4)(b)

You had requested an explanation of how retrospective rate increases operate and why they are needed in group term life plans.

A typical group term life insurance premium includes a margin for claim fluctuations. Some policyholders prefer to eliminate the claims margin from the premium and retain the money equivalent to the margin, but to do this they have to agree to a retrospective premium increase if claims fluctuated in a way that would have required the margin. Policyholders like this arrangement because it lets them keep the premium lower than it
otherwise would be and allows the policyholders to hold onto some of the premium during the retrospective rate period. But if at the end of the retrospective rate period the claims experience is such that the margin is needed to pay claims, the policyholder agrees to return the claims margin to the insurance company for payment of claims.

The end result of a plan without the arrangement and one with the arrangement is much the same, except that, for the plan with the arrangement, the policyholder has access to the claims margin money during the retrospective rate period.

As stated in earlier comments, the retrospective rate decrease and rate increase arrangements are critical tools in the large employer marketplace that provide significant competitive advantage when a company is bidding for a large employer case, and consequently both are needed to be included in the IIPRC standards.

§5. POLICY AND CERTIFICATE BENEFITS

B. PORTABILITY OF GROUP TERM LIFE INSURANCE
C. CONVERSION

The solution you offered for the “additional benefit” issues would have to be revised for “portability” instances since the use of “group policy” could mean either the employer’s group policy or the portability group policy. Upon further examination, we also found some other inconsistencies in the existing Employee and Dependent sections that would have to be cleaned up, as well as having to reflect the “Employee Conversion” section changes in the “Dependent Conversion” section.

After further discussion with the companies, it was determined that while additional benefits are not usually included in the portability option and the conversion right, some employers may want to include them, and this flexibility needs to be included in the standards.

Additionally, since we have changed the conversion right so that someone can convert their entire amount of group term life vs. the previous state limits, it is now possible that a company may have to pay both a “portability” death benefit and a “conversion” death benefit for the same Covered Person. For example, if a Covered Person was insured for $100,000 and decides to port $50,000 (this may be a voluntary choice, or a maximum imposed by the plan for portability coverage) and convert the other $50,000. If death occurs during the portability period after the Covered Person applied and was approved, and during the conversion period, the company will pay what the $50,000 portability coverage that was approved and the remaining $50,000 that the Covered Person was entitled to convert. Consequently, the “In no event…” language in the standards needed to be fixed.
Accordingly, we offer the following suggested changes to resolve all of these issues in the PORTABILITY and CONVERSION sections of the standards. However, we may be suggesting further changes since we have not had enough time to think through all of these issues and how to properly resolve.

B. PORTABILITY OF GROUP TERM LIFE INSURANCE

Page 32, Item (1)

We suggest inserting the following as new item (a):

“(a) The provision shall state whether additional benefits, such as accidental death benefits, accidental dismemberment benefits, accidental death and dismemberment benefits, waiver of premium and accelerated death benefits, as applicable, may be ported in addition to the Covered Person’s life insurance amount.

For the purpose of the standards that follow, it is assumed that additional benefits are not included in the portability option.”

The items that follow need to be re-alphabetized.

Page 32, Previous Item (c)/New item (d)

We suggest the following changes to distinguish between “additional benefits” as defined in new item (a) and “additional coverage” as used here to refer to additional life insurance coverage:

“the amount ported shall not exceed the life insurance amount that was provided under the certificate before coverage ended. The provisions may also allow the Employee to request additional life insurance amounts, but such amounts shall be subject to evidence of insurability. However, such additional amounts may only be requested….. etc.”

Page 33, Previous Item (i)/New Item (j)

We suggest the following changes in the second sentence:

“the insurance company shall pay the amount of life insurance, exclusive of additional benefits, that the Covered Person was entitled to convert under the terms of the certificate.”
C. CONVERSION
Pages 34-39

First, we suggest changing the title to say “CONVERSION OF GROUP TERM LIFE INSURANCE”.

We suggest inserting the following as new item (a):

“(a) The provision shall state whether additional benefits, such as accidental death benefits, accidental dismemberment benefits, accidental death and dismemberment benefits, waiver of premium, accelerated death benefits and continuation of insurance benefits, as applicable, may be available upon conversion in addition to the Covered Person’s life insurance amount.

For the purpose of these standards, it has been assumed that additional benefits are not made available upon conversion.”

The items that follow need to be re-alphabetized.

The following changes are suggested for the Employee Conversion section:

Page 35, Previous Item (c)(vi)/New Item (d)(vi)

We suggest the following changes in the second sentence:

“The conversion policy may be issued without any additional benefits, whether or not such benefits were in effect on the date insurance ended or was reduced.”

Page 35, Previous Item (c)(viii)/New Item (d)(viii)

We suggest the following changes:

“the maximum amount that the Employee may elect to convert shall be the life insurance amount, exclusive of additional benefits, that ends or is reduced under the terms of the certificate, less the amount……reduced;”
We suggest the following changes in the second sentence:

“If the Employee dies during the conversion period, the insurance company shall pay the amount of life insurance, exclusive of additional benefits, that the Employee was entitled to convert under the terms of the certificate.”

We suggest the following changes in the first sentence:

“, the insurance company shall pay the amount of life insurance, exclusive of additional benefits, that the Employee was entitled to convert under the terms of the certificate.”

We suggest the following changes in the third sentence:

“In no event shall the insurance company be liable to pay a death benefit for both the coverage that the Employee was entitled to convert and the amount that the Employee ported, whether such ported coverage was to be provided under the same or a different group policy.

[This needs further discussion:]

However, if the Employee elected to port part of the Employee life insurance amount that was in force under the certificate and convert all or part of the remaining life insurance amount, the insurance company will not refund the premiums paid for the portability coverage and shall pay a death benefit for both the coverage that the Employee was entitled to convert and the amount that the Employee ported.”

We suggest the following changes in the first sentence:

“, the insurance company shall pay the amount of life insurance, exclusive of additional benefits, for which the Employee is approved under the terms of the portability provisions of the certificate, whether such coverage is to be provided under the same or different group policy.”

We suggest the following changes in the second sentence:
“In no event shall the insurance company be liable to pay a death benefit for both the coverage that the Employee was entitled to convert and the coverage that the Employee was entitled to port, if any, whether such ported coverage was to be provided under the same or a different group policy.”

**Pages 36-37, Previous Item (c)(xi)(D)/New Item (d)(xi)(D)**

We suggest the following changes in the first sentence:

“, the insurance company shall pay the amount of life insurance, exclusive of additional benefits, that the Employee was entitled to convert under the terms of the certificate.”

We suggest the following changes in the second sentence:

“In no event shall the insurance company be liable to pay a death benefit for both the coverage that the Employee was entitled to convert and the coverage that the Employee was entitled to port, whether such ported coverage was to be provided under the same or a different group policy.”

**The following changes are suggested for the Dependent Conversion section:**

**Page 38, Previous Item (e)(vi)/New Item (f)(vi)**

We suggest the following changes in the second sentence:

“The conversion policy may be issued without any additional benefits, whether or not such benefits were in effect on the date insurance ended or was reduced.”

**Page 38, Previous Item (e)(viii)/New Item (f)(viii)**

We suggest the following changes:

“the maximum amount that may be converted shall be the Dependent’s life insurance amount, exclusive of additional benefits, that ends or is reduced under the terms of the certificate, less the amount of Dependent life insurance for which the Employee becomes eligible under any group policy within 31 days after the date the Dependent’s insurance ended or was reduced.”
Page 38, Previous Item (e)(ix)/New Item (f)(ix)

We suggest the following changes in the second sentence:

“If the Dependent dies during the conversion period, the insurance company shall pay the Dependent life insurance amount, exclusive of additional benefits, that was entitled to be converted under the terms of the certificate.”

Pages 38-39, Previous Item (e)(x)/New Item (f)(x)

We suggest the following changes in the first sentence:

“, the insurance company shall pay the Dependent life insurance amount, exclusive of additional benefits, that was entitled to be converted under the terms of the certificate.”

We suggest that in the third sentence, a comma be added before “whether”:

Page 39, Previous Item (e)(xi)(C)/New Item (f)(xi)(C)

We suggest the following changes in the first sentence:

“, the insurance company shall pay the amount of life insurance, exclusive of additional benefits, for which the Dependent is approved under the terms of the portability provisions of the certificate, whether such coverage is to be provided under the same or different group policy.”

We suggest the following changes in the second sentence:

“In no event shall the insurance company be liable to pay a death benefit for both the Dependent coverage that was entitled to be converted and the Dependent coverage that was ported, whether such ported coverage was to be provided under the same or a different group policy.”

[This needs further discussion:

However, if the Employee elected to port part of the Dependent life insurance amount that was in force under the certificate and convert all or part of the remaining life insurance amount, the insurance company will not refund the premiums paid for the portability coverage and shall pay a death benefit for both the coverage that the Dependent was entitled to convert and the amount that was ported for the Dependent.”]
Page 39, Previous Item (e)(xi)(D), Now New Item (f)(xi)(D)

We suggest the following changes in the first sentence:

“, the insurance company shall pay the Dependent life insurance amount, exclusive of additional benefits, that was entitled to be converted under the terms of the certificate.”

We suggest the following changes in the second sentence:

“In no event shall the insurance company be liable to pay a death benefit for both the Dependent coverage that was entitled to be converted and the Dependent coverage that was entitled to be ported, if any, whether such ported coverage was to be provided under the same or a different group policy.”

D. LIFE INSURANCE BENEFITS

Page 39, Item (1)

Based on the definition of “certificate” on page 1, we suggest that you change the yellow highlighted text to say:

“the death benefit in effect under the certificate on the date of death.”

Submitted by:

IIPRC Industry Advisory Committee:

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