

**DATE:** June 1, 2018

**TO:** IIPRC Management Committee and Commission

**FROM:** Industry Advisory Committee

**SUBJECT:** IIPRC 5 Year Review For Phase 8: Individual Disability Income  
Response to Proposed Amendments to the Uniform Standards Listed Under Phase 8 of the 5 Year review Published April 5, 2018 (“Amendments”)

### **Substantive Change Items**

**#7: Definition of Total Disability, Previous Report Pages 27-30**

**#15: Application Questions Lookback Periods, Previous Report Pages 45-52**

The companies are very disappointed in the final outcome of these issues. Due to the lack of flexibility in product design, and total disregard of the fact that 80% of the states have approved an “have you ever had” application questions, and an unwillingness to compromise on these issues and instead rely on a minority regulatory view, the companies may not use the IIPRC for their IDI product filings in the foreseeable future. This is unfortunate for both the companies and the IIPRC since some of the companies had been holding back on nationwide portfolio filings looking forward to filing with the IIPRC. The IIPRC has for quite some time now gained an enviable reputation for standards that meet the needs of the product marketplace by focusing on the majority regulator view, but in the case of the 5 Year Review of the IDI standards, we believe this has not been the case. With outdated NAIC Models #170 and #171 which were only adopted by less than 20 states and which barely addressed IDI standards, states have each addressing the product requirements on their own, an opportunity existed for the IIPRC to establish standards that would benefit the regulators and the companies to fill a gap much needed. Unfortunately, while we have developed some meaningful standards and raised the bar from the NAIC Models, we fell short of addressing the changing needs of today’s consumers, as we have pointed out in our earlier comments. The companies are not the only losers here – the consumers who make up the huge, under-served population that cannot afford what is considered "traditional" disability insurance with all the bells and whistles, but who need some type of coverage, possibly more than anyone else, will also be the losers. We live in a time where people purchase things in a different way than they did 10, 20 years ago. If we continue to think old-school, under the guise of protecting the consumer from their own choices, then we will become obsolete.

### ***Return Of Premium Benefit***

We had previously withdrawn our request for this benefit, but a company has requested that we resurrect this benefit – see attached document which details the requested standard.

In response to the questions that the PSC had previously asked in regard to this benefit, we offer the following response/information:

**1. How many states permit the sale of an ROP benefit?**

To the best of our knowledge, 38 states currently permit an ROP Benefit (50% and 80% versions) issued with an individual DI policy. IL permits only the 50% version, and 12 states (CT, FL, MD, MN, NH, NJ, NY, PA, RI, TN, TX WA) prohibit an ROP benefit.

**2. How many companies offer these benefits?**

There are a few companies selling this product-today but we believe that others may also sell if there is a feasibility for filing with the IIPRC. It is hard to quantify because what the IAC had previously submitted and eventually withdrew was different from the currently proposed benefit.

**3. Explain how circumstances or underlying assumptions have changed since the standards were adopted to justify a need to add such a benefit feature.**

The companies' underlying assumptions haven't changed. We are trying to update the standards to allow a benefit that two companies have been offering for quite some time – for one company this has been the last 10-plus years.

**4. Indicate the impact on rates for such a benefit feature.**

The 50% benefit can cost anywhere from 30% to 60% of premium. The 80% benefit can cost between 65% to 100% of premium.

**5. Provide a response to the CAC concern that this provision “invites sale of an expensive feature that covers no risk attached to an already expensive product.”**

The risk of not offering this benefit is that a client has no other option of obtaining tangible returns (benefits) from their purchase without becoming disabled first. Unfortunately, most people (target market ages 30 – 50, when they are healthiest) do not believe they will become disabled when the statistics say otherwise. This is a key reason why people do not buy this type of insurance.

The ROP benefit is designed for this type of policy because this policy is expensive. With so much premium on the line, customers want options to justify their purchase. This benefit allows them another way to receive benefits other than just when they are disabled.

We offer this benefit to allow for a lump sum payment at end of a term period (10 years) to spend as the customer chooses (save it, pay for a car, pay down mortgage or other debts). The insured also receives this benefit tax-free since they used after-tax income to pay for this policy/benefit.

**LIMITATIONS/EXCLUSIONS SECTION**

**(18) Specified Conditions**

We request consideration for some clarification of the intent of this provision's item (b):

## **(18) Specified Conditions**

(a) Loss that results from specified conditions may be limited ~~may be limited~~ to a period of not less than 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; myofascial 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 limitation shall not apply to the following conditions: 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.

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

Hugh Barrett, Mass Mutual Life  
Jason Berkowitz, IRI  
Michael Hitchcock, Pacific Life  
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Charles Perin, Nationwide  
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## RETURN OF *PREMIUM* BENEFIT

A Disability income policy may include an optional return of *Premium* benefit that returns a percentage of *Premiums* paid at the end of a defined period of time (a *Term Period*) and upon the death of an insured.

At the end of each *Term Period*, the benefit will return 50%, 80% or other fixed percentage of *Premiums* paid during the *Term Period*, minus *Claims* paid during the *Term Period*.

If during a *Term Period*, the *Claims* paid exceed 50%, 80% or other fixed percentage of the *Premiums* paid for that entire *Term Period*, the *Term Period* will end. The new *Term Period* will begin on the policy renewal date following the date on which policy benefits for the last *Claim* during that *Term Period* ceased.

If *Claim* benefits are due for a *Term Period* for which *Premiums* have already been returned, such *Claim* benefits will be reduced by the amount of *Premium* returned.

If the insured dies or should there be a policy renewal date that occurs on or nearest following a specified limiting age during a *Term Period* (such as the insured's 67<sup>th</sup> birthday), the *Term Period* will end. The insurer will calculate the return of *Premium* benefit based on the number of months completed in the *Term Period*.

As used in this benefit section, the following terms shall have the meaning shown:

“*Claim(s)*” means any benefits payable and *Premiums* waived during a *Term Period* under the policy and any specified attached riders.

“*Premium(s)*” means all premiums paid or waived during a *Term Period* for the policy and any specified attached riders.

“*Term Period*” means 10 consecutive years while the policy is in force. However, in no event will a *Term Period* either begin or end after the policy renewal date that occurs on or after a specified birthday (such as the insured's 67<sup>th</sup> birthday). A *Term Period* is considered from:

- (a) the benefit effective date;
- (b) the end of the previous *Term Period*; or
- (c) the date as adjusted under the return of *Premium* benefit explanation above.

A *Term Period* beginning after a specified age (such as age 57) will be less than 10 years if a guaranteed renewable policy will otherwise end or become conditionally renewable in less than 10 years due to attainment of a limiting age (such as age 67).