

Agenda Item 2. Discuss comments on proposed amendments to the *Additional Standards for Overloan Protection Benefits* to include whole life products and finalize recommendation to the Management Committee.

Mary Mealer, Chair of the Product Standards Committee (PSC) stated that the PSC held a public call in October to receive comments on the proposed recommended amendments and subsequently received written comments from Penn Mutual Life Insurance Company and the ACLI.

The Insurance Compact staff reviewed the comments with the PSC. In response to the ACLI request for clarification of the proposed last sentence in the Scope, Compact staff noted that the Compact sometimes receives forms where the insurer will reduce the loan interest rate to zero under certain circumstances. An example would be if the insured was diagnosed with a life-threatening illness. Such policy provisions are reviewed under the loan provisions of the applicable life insurance policy uniform standards and are not considered overloan protection benefits. The PSC agreed to the Compact office suggestion to amend the proposed sentence for clarity as follows:

A benefit that solely reduces the loan interest rate to zero under specified circumstances is not considered an overloan protection benefit and is subject to the applicable life insurance policy Uniform Standards.

Under §2B (1) Specifications Page, the PSC agreed with the Compact staff observation that the question from Penn Mutual Life Insurance Company about combining minimum age and minimum duration requirements into one feature was more of a pre-filing type question than a comment on the proposal. Compact staff noted that the provision specifically states “if applicable” and the requirements are reviewed on a form by form basis. The PSC agreed that no change was needed.

The PSC reviewed the ACLI comments under Benefit Provisions in §3A (1) and agreed it would add clarity to include requirements for adjustable life and whole life separately:

- (1) The benefit form shall state that if the benefit is exercised, the policy will not lapse when:
 - (a) For individual variable or non-variable adjustable life insurance policies, the policy’s cash surrender value or, if applicable, the account value less policy loan, is not sufficient to cover the monthly deduction charges ~~or~~ ~~minimum required modal premium~~ of the policy due to loan indebtedness; or
 - (b) For individual whole life insurance policies, the total loan indebtedness including interest due and accrued equals or exceeds the cash value of the policy plus the cash value of any dividend additions., ~~and that the policy will automatically become paid-up life insurance will not be subject to lapse.~~

Under §3A (2), Penn Mutual Life Insurance Company suggested adding a requirement that the policy cannot be a Modified Endowment Contract under §7702 of the IRC, as amended, at the time the policy is issued. The PSC noted that §3A (2)(g) already states that exercising the benefit cannot cause the policy to become a Modified Endowment Contract and that an insurer can exercise its own underwriting discretion in determining whether it will accept or reject an application for a policy. The Committee therefore concluded that there was no need to include the language suggested by the commenter.

The PSC reviewed comments related to a member's suggestion to add a requirement for advanced notice to the policyholder if the overloan protection benefit was going to be automatically exercised. Noting the limited policy value by the time such a feature is automatically exercised and that as a practice most insurers communicate in advance of such action, the Committee concluded that no change was needed. Following that discussion Utah asked to withdraw the comments they previously made related to notice requirements under §3A (4)(b).

In response to the ACLI request for clarification of the addition of the phrase "or remain 'in force' without value" to §3A (6), Pennsylvania stated that the intent was to say the policy cannot remain in force without a death benefit. Utah questioned whether this would occur, but concluded that it did no harm to specify this in the standards, preferably without the quotation marks around the words in force. The Committee agreed to the following revision:

- (6) Once the benefit is exercised, indebtedness which continues to accrue interest, and which would cause the policy to overloan and lapse without value or remain in force without a death benefit ~~value~~ is not permitted.

The Committee reviewed ACLI's comments under the Termination provisions, §3D (2)(b). They agreed to the following change for clarity as suggested by the ACLI:

- (b) The date the insured reaches the age when monthly deductions end ~~and or~~ no further premiums can be paid under the policy or the date the younger insured reaches the age when monthly deductions end ~~and or~~ no further premiums can be paid under a last to die survivorship policy.

Agenda Item 3. Continue discussion of comments on the draft *Single Premium Group Fixed Annuity Contract Uniform Standards for Employer Groups*

The Chair noted that the Compact staff updated the draft *Single Premium Group Fixed Annuity Contract Uniform Standards for Employer Groups* to summarize the proposed changes to the first three sections that were discussed on the December 4th member call. The Committee reviewed the suggested change to the definition of Separate Account that was submitted by Pennsylvania and agreed to the following:

"Separate Account" means an account ~~holding certain insurance company assets that are accounted for separately from the General Account~~ established by the insurance company under the laws of the insurance company's state of domicile. All aspects of

its operation, maintenance, and the insulation of *Separate Account* assets will be governed by the domiciliary state's law.

Under §4A – Amendments, the PSC reviewed comments requesting addition of language allowing changes to the contract to comply with any applicable state or federal law. The Committee expressed concern with such a change since if related to product content, Compact Uniform Standards are applicable, not state law. Noting that the language in the original draft is contained in many of the Insurance Compact's Uniform Standards and expressing concern that a change in this standard would impact other standards, the PSC did not wish to make any change to this provision. It was noted that reviewers work with filers on the specific language in such contract provisions.

The PSC discussed the comments from Maryland regarding §4B – Annuity Schedule suggesting addition of calculation of minimum annuity benefits. The Committee was not clear that such a requirement is typically included in these contracts, usually involving sophisticated buyers. The Compact staff observed that a review of sample contracts included information related to deferred annuitants including listing the normal form of annuity, any optional forms of annuity and what happens for early or late retirement or employment termination. Following discussion, the PSC agreed that Compact staff would discuss this with the group annuity insurers and prepare suggested changes or documentation of why no further change should be considered.

The PSC agreed to the following changes to the draft related to the arbitration provision to address several comments:

- (1) Only arbitration provisions that permit voluntary post-dispute binding arbitration shall be allowed in contract forms. ~~With respect to such a provision~~ If the contract includes an arbitration provision, the following guidelines apply:
 - (a) Arbitration shall be conducted in accordance with the rules of the American Arbitration Association (“AAA”) before a panel of 3 neutral arbitrators who are knowledgeable in the field of life insurance and appointed from a panel list provided by the AAA.
 - (b) Arbitration shall be held in the city or county where the ~~contract owner~~ contractholder, Annuitant, Contingent Annuitant, Joint Annuitant or *Beneficiary* lives, depending on who has agreed to arbitration.
 - (c) The cost of arbitration shall be paid by the insurance company, to include any deposits or administrative fee required to commence a dispute in arbitration, as well as any other fee including the arbitrator's fee.
 - (d) Where there is any inconsistency between these guidelines and AAA rules, these guidelines control.

Under §4 D, it was noted that the group annuity insurers included the provision that no assignment can be made without the consent of the insurer to address situations where the employer may change name,

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merge, or sell the company and a transfer may be desirable. The Committee decided not to consider the changes suggested by ACLI absent a more detailed explanation for such need.

Agenda Item 4 - Any Other Matters. The Chair thanked the five members who were not continuing with the PSC in the upcoming year for their service on the Committee. She stated that the Compact staff would send notice for when the first PSC call would be scheduled for the new year.