

Agenda Item 3. Finalize Recommendation for Amendments to the *Additional Standards for Overloan Protection Benefit to Add Whole Life Insurance Products.*

The Chair noted that in January the Product Standards Committee (PSC) exposed their second draft of PSC recommendations for amendments to the *Additional Standards for Overloan Protection Benefit* to add whole life insurance products for written comments. No comments were received, but on the February 5th public call, the Oregon Division of Financial Regulation presented oral comments. The Division followed up with written comments following that call. The PSC reviewed the first comment regarding the last sentence added to the Scope. Oregon's comment was that there are very limited circumstances where the loan interest rate would be reduced and that what they call the "core" life insurance product standards, would have now have the word "core" removed or the core life insurance product standards would be altered in the future five-year review. The PSC agreed that the last sentence in the Scope was added to clarify that situations where an insurer changes loan interest rates to zero under certain qualifying circumstances are not Overloan Protection Benefits and are not covered under these standards. They agreed that the purpose of the sentence was to clarify that such provisions are covered under (and currently reviewed using) the appropriate whole life insurance policy uniform standards and that it was not appropriate to refer to the policy standards as "core" standards in the sentence since the word "core" is not used in the title of the whole life policy standards and could be confusing. The Committee agreed that adding the sentence as currently drafted would not result in any change to the whole life policy standards and that no further change was needed.

The PSC then discussed the second comment from Oregon in which they stated they agreed with earlier comments from Utah that the original language in § 3 A(1) "will automatically become paid up life insurance" should not be removed from the product standards. Oregon questioned the reason to remove a well-known and searchable insurance term from the standards. Compact staff noted that the PSC discussion in December primarily focused on separating the requirements for adjustable life and whole life and not the phrase in question. She pointed out that the Scope states that the purpose of these standards is to prevent the policy from lapsing due to an excessive loan on the policy, and if specified requirements are met, the benefit provides the owner with a paid-up policy. The PSC discussed the Compact Office suggestion to add "and will automatically become paid up life insurance" to (1). Pennsylvania expressed concern that it may not be clear that there is still a loan in effect. Maryland noted that the provisions of the policy still apply, and loan values would be deducted from the death benefit. The Compact staff noted that §3A(5) specifies that the form shall describe the changes that are made to the policy after the benefit is exercised. Following further discussion, the PSC agreed to the suggested revision as follows:

- (1) The benefit form shall state that if the benefit is exercised, the policy will not lapse and will automatically become paid up life insurance 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.~~

The PSC reviewed the final comment from Oregon related to §3 D Termination in which they stated that they preferred their state’s current statutory language based on former NAIC model law for specific insurance products of “shall not” instead of more changes to the product standards of “and” or “or” or “may”. The PSC observed that the only proposed change to this section is the word “or” instead of “and” in §3 D (2)(b), and that this change provided clarity. The Committee determined no further change was needed.

The Chair stated that the final recommendations would be presented to the Management Committee during the joint call of the Management Committee and Commission scheduled for February 25th. Once accepted, the formal rulemaking process will start, and the Management Committee will receive comment and hold a public hearing prior to considering the amendments for adoption.

Agenda Item 4. Finalize Initial Review of Section 4 – Contract Provisions of the *Single Premium Group Fixed Annuity Contract Uniform Standards for Employer Groups*.

The PSC continued its review of the *Single Premium Group Fixed Annuity Contract Uniform Standards for Employer Groups* starting where they left off previously at §4 I. Under the provision Death of the Annuitant, the PSC agreed that contracts vary regarding how much is listed within the contract and how much is in the certificate, with provisions varying by form of annuity. The PSC concluded that the current language allowed for this variation and no further change was needed.

The PSC agreed that the language in §4 J. Discretionary Clauses addressed Oregon’s concern that discretionary clauses should be prohibited.

Under §4 K Entire Contract, the Compact staff noted that the PSC previously agreed to revise the definition of “Contract” on page 1. The PSC agreed that the language in K(1) should be revised to be consistent with this revision and that reference to “company” should be changed to “insurance company.” In response to the ACLI comment that the sentence “No document may be included by reference” should be deleted, the PSC agreed that reference to pension plan documents could be appropriate; however, reference to other documents such as an item found on the insurance company website would be problematic. They agreed to revise the sentence to “No document except pension plan documents may be included by reference.”

The PSC reviewed the ACLI comments for §4 M and did not see a reason to change the language as written in current uniform standards from “shall comply” to “shall be subject to.”

In §4 N Participating Contract, the PSC decided that the phrase “A contract may be non-participating” in the preface was unnecessary. They also concluded that for this type of contract, there is no requirement for dividends to be paid in cash, so they agreed to delete M(3) and the last sentence of the current (4).

In §4 O Settlement, the PSC agreed to delete “to the *Beneficiary*” and concluded that any specificity about settlement of death benefit proceeds should be addressed in the certificate standards.

The PSC reviewed comments on §4 P Termination. They agreed that use of the term “benefits” instead of “annuity payments” would add clarity. In reference to Oregon’s comment asking if the policy owner could terminate the contract, the PSC discussed whether this could ever be an option. A member asked if the employer or plan sponsor could decide mid-stream to change insurance companies. The Committee noted that these are single premium products, paid at the time the contract commences, and that liability is transferred to the insurance company to pay the retirement benefits. Once the employer pays the single premium, it does not have the contractual responsibility and has no basis for terminating a contract. The PSC agreed that there was no basis for adding any provisions related to the contract owner terminating the contract.

The PSC reviewed the remaining items in the comment letter from the Oregon Division of Financial Regulation that were not specific to provisions in the first draft. They agreed with the Compact Office suggestion to add a new provision to § 1A similar to that found in the individual annuity standards stating “If the contract includes a *Separate Account*, the contract shall explain any restrictions and/or limitations on transfers between/among the *Separate Account* and the *general account*” to address the comment that it was unclear if funds can be transferred from the general account to the separate account. The PSC noted that most member states did not require incontestability provisions for this type of group annuity contract, and they were not inclined to include them in the standards. The Committee reviewed the other items in the comment letter regarding areas not included in the draft and concluded that they were either addressed with current revisions to this contract draft, to be considered in the certificate draft, or, for items such as MVA, grace periods, loans, and reinstatement, were not applicable to this type of single premium group fixed annuity contract.

The Chair stated that the Compact staff would update the draft to reflect the PSC discussion and it would be posted to the Docket – Uniform Standards Under Construction for public review and further input on the public call tentatively scheduled for March 19th.

Agenda Item 6 - Any Other Matters.

The Chair stated that there was not time to address the remaining item on the agenda regarding work on an initial draft for *Additional Standards for Return of Premium for Individual Disability Income Insurance* and this would be covered in the next member call scheduled for March 5th.