Please accept the following comments on Incidental Benefit Provisions (Appendix B). Note that these are my own comments as an interested regulator and do not represent a position of the Pennsylvania Insurance Department.

Following are some characteristics of Employer Group coverage that may be relevant in determining how well a group insurance benefit will fit in an individual policy.

- The employer is the policyholder rather than a disinterested third party.
- The employer can subsidize benefits.
- Employee benefit packages can and do include non-insurance benefits.
- The employer has direct access to family census data and to payroll/benefit data.

It would be beneficial to have some common ground as to the attributes of Incidental Benefits that are compatible with an individual disability policy. Please consider the following list for some insight into my opinion regarding various incidental benefits.

- Trigger based on accident or sickness of the insured
- Indemnity benefit, whether cash payment(s) or a shortened base benefit elimination period
- Elimination period for the incidental benefit not to exceed 30 days
- Benefit can be administered effectively without reliance on disinterested third parties (such as an employer or a financial institution)
- Rates based on objective data or assumptions such that a substantive actuarial review is achievable
- Premium/cost no more than X% of the base premium/cost
- Benefit termination consistent with the trigger and with reasonable owner expectations

Following is a list of the specified incidental benefits that I would prefer to exclude with reference to the above list.

- ADL for Spouses
- Child Care Benefit
- Child Education Benefit
- COBRA Insurance Premium Benefit
- Contagious Disease Benefit (may not be workable when the employer is a disinterested third party)
- Eligible Survivor Benefit
- Family Member Care Benefit
- Medical Insurance Premium Benefit
- Retirement Benefit
- Right to Purchase Individual Life Insurance
With respect to specific language, there may be a need to rework variations on termination provisions such as “the date other Disability payments end”, “the date other Disability benefits for the Covered Person end”, and in particular “the date the Covered Person is no longer insured ...”. The most convenient place to offer specific suggestions is in the “Other Optional Incidental Insurance Benefits” portion of the document.

A preliminary concern is that the use of “Optional” seems confusing and perhaps could be eliminated. Alternatively, “Other Optional” could be replaced with another expression that eliminates any unintended appearance of contradiction of redundancy.

With respect to benefit termination, it isn’t clear that “the date other Disability payments end under the policy” (item (3)(c)) is broadly applicable. Even if disability is a precondition for the incidental benefit, item (3)(a) already addresses both the disability precondition and the additional requirement(s) unique to the incidental benefit. If the (3)(c) is retained, perhaps it should be allowed only if the incidental benefit is preconditioned on disability. Alternatively, it could be qualified in some way such that it might be acceptable in nearly all cases. One possibility may be “the date other Disability payments end owing to a suspension or limitation applicable under the policy”. If (3)(c) is eliminated or narrowed considerably, some may prefer that (3)(a) be clarified to remove any doubt that “the requirements” would include any disability precondition.

For the specific list of incidental benefits, “the date any other disability benefit ends” continues to be appropriate when the incidental benefit is preconditioned on disability, where absence of the specific trigger for the incidental benefit is treated separately in the termination provision. Following are some comments on other variations on termination conditions that currently appear in Appendix B.

“The date the Covered Person is no longer insured for Disability benefits”, if needed, perhaps should be “the date the policy terminates”.

The Critical Illness Benefit is not preconditioned on disability, so I don’t believe “the date any other Disability payments end under the policy” is appropriate as a termination condition.

The Hospital Confinement Benefit is preconditioned on disability, but the nature of the benefit is such that no reference to “insured for Disability benefits” or “payment of Disability benefits” is needed in the benefit termination conditions.

I look forward to discussing public comments on the upcoming conference call.

Tom
Thomas P. Kilcoyne | Life Actuary
Pennsylvania Insurance Department
1311 Strawberry Square | Harrisburg, PA 17120
www.insurance.pa.gov