GROUP TERM LIFE INSURANCE POLICY AND CERTIFICATE STANDARDS FOR EMPLOYER GROUPS

There are conflicts between the Compact standards and Texas Insurance Code §1131.802 regarding coverage of children in group policies. For instance, under the Compact, if the group policy covers children, it only requires coverage through age 19 and permits restrictions on the circumstances of the child that Texas would not allow. Under Texas law, a group policy that covers children must cover them through age 26 with few exceptions. See the highlighted text below.

Compact - GROUP TERM LIFE INSURANCE POLICY AND CERTIFICATE STANDARDS FOR EMPLOYER GROUPS

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§ 3. TERMS AND CONCEPTS

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(4) "Child" at a minimum, means the Employee's biological/natural children, adopted children, children placed for adoption, and any other children required to be covered under the civil union, domestic partnership, marriage or other family or domestic relations laws of the state where the policy is delivered or issued for delivery. The term may also include other children in whose lives the Employee or the Employee's Spouse has an insurable interest.

(a) Any or all of the following conditions may also be required for the definition of "Child":

(i) That the child shall be unmarried or not in a legally-sanctioned domestic partnership or civil union as recognized by applicable state law in the state where the policy is delivered or issued for delivery;

(ii) That the child shall reside with the Employee;

(iii) That the child shall be supported by the Employee, whether in whole or in part;

(iv) That the child shall be eligible to be claimed by the Employee or the Employee's Spouse for federal income tax purposes;

(v) That the child shall not be on full-time active duty in the armed forces of any country or subdivision thereof;

(vi) That the child's legal residence shall not be outside the United States, its territories or possessions, or Canada;

(vii) That the child shall not be insured under the policy in any other capacity, such as an Employee; and/or

(viii) That the child shall not be insured by the insurance company pursuant to the exercise of any conversion right under the certificate.

(b) A Child meeting the required conditions may be insured for:

(i) Life insurance, from live birth or with a waiting period of no more than 14 days; and
(ii) Accidental dismemberment benefits, with no waiting period.
(c) Coverage for a Child shall be made available to age 19, and may be extended.
(d) Beginning at age 19, the following conditions may also be imposed:
(i) A condition that the Child not be employed on a Full-Time basis.
(ii) A condition that the Child be a full-time student at a school, college or university (an accreditation requirement and/or a requirement that the school, college or university is licensed in the jurisdiction where it is located may also be included); coverage may also be extended to part-time students of such institutions and/or a child in the service of a non-profit organization during the period of such service.
(iii) For purposes of subparagraph (ii) above, the terms "full-time" and "part-time" may be defined based on credit or course load requirements.
(e) If the policy and certificate are delivered or issued for delivery in different states, the certificate shall, if required, comply with the applicable marriage laws, including marriage case law, of the state where the certificate is delivered or issued for delivery and, if required, with the applicable domestic partnership and civil union laws of such state, with respect to coverage available for marital relationships, domestic partnerships, or civil unions.

Texas Insurance Code Sec. 1131.802. EXTENSION OF GROUP LIFE INSURANCE TO SPOUSES AND CHILDREN; ELIGIBLE CHILDREN. Insurance under a group life insurance policy may be extended to cover:

(1) the spouse of each individual eligible to be insured under the policy;

(2) a natural or adopted child of each individual eligible to be insured under the policy if the child is:

(A) younger than 25 years of age or an older age stated in the policy; or

(B) physically or mentally disabled and under the parents' supervision; or

(3) a natural or adopted grandchild of each individual eligible to be insured under the policy if the child is younger than 25 years of age or an older age stated in the policy.

GROUP TERM LIFE INSURANCE UNIFORM STANDARDS FOR ACCELERATED DEATH BENEFITS

The submission requirements for accelerated death benefit filings are inconsistent between the Compact standards and Texas rules in a number of ways. For instance, the Compact allows any amount of administrative fee for such products. Texas rules prohibit any administrative fee of more than $150. See the Compact standards and TAC standards below. See the highlighted text below.

Compact - GROUP TERM LIFE INSURANCE UNIFORM STANDARDS FOR ACCELERATED DEATH BENEFITS

§ 1 ADDITIONAL SUBMISSION REQUIREMENTS

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B. ACTUARIAL SUBMISSION REQUIREMENTS

(1) Include an actuarial memorandum prepared, dated and signed by a member of the American Academy of Actuaries who provides the following information:

(a) A description of the accelerated death benefit, including the effects of payment of the accelerated death benefit on all certificate benefits and premium payments;

(b) A description of and justification for expense charges associated with the accelerated death benefit and the maximum expense charges. If such charges exceed $250, include a detailed explanation;

(c) A description of the interest rate or interest rate methodology used in any present value calculation or in accruing interest on the amount of the accelerated death benefit. The maximum interest rate shall not exceed the greater of:

(i) The current yield on the 90-day Treasury bills available on the date of application or accelerated payment; and

(ii) The current maximum adjustable policy loan interest rate based on the Moody's Corporate Bond Yield Averages-Monthly Average Corporates published by Moody's Investors Service, Inc., or successor thereto, for the calendar month ending two months before the date of application for an accelerated payment. The policy loan interest rate is that which is permitted under the NAIC Model Policy Loan Interest Rate Bill, Model # 590;

(d) A description of the mortality basis and methodology, including the period of time applicable to any mortality discount, used in any present value calculation of the accelerated death benefit;

(e) A description of the mortality and morbidity basis and methodology used in the determination of any separate premium for the accelerated death benefit;

(f) The formula used to determine the accelerated death benefit, including any

limitations on the amount of the benefit, and the formula used to determine the post-acceleration premium;
(g) A sample calculation of the accelerated death benefit. All certificate benefits and premium payments immediately before and immediately after acceleration must be shown in the example;
(h) If an accelerated death benefit may be made in periodic payments, the basis used in the calculation of the minimum periodic payment for the payment period and a sample calculation of a minimum periodic payment. Identify the basis used and provide a sample calculation of the lump sum payable if the Covered Person dies before all periodic payments for the payment period are made; and
(i) For any accelerated death benefit of the type described in items (b), (c), (d) and (e) of the "qualifying event" definition contained in these standards, a certification that the value and premium of the accelerated death benefit is incidental to the group term life insurance coverage, as per the Incidental Value and Premium/Cost of Insurance Rate Relationship Certification shown in Appendix A.

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§ 2 GENERAL FORM REQUIREMENTS

A. *COVER PAGE OR FIRST PAGE*
B. *(1) The cover page of the policy if the benefit is built into the policy, or the first page of the rider, endorsement, or amendment shall include the following in prominent print:*
   (a) The term "accelerated death benefit" shall be included in the brief description or descriptive title of the form.
   (b) A clear statement that the death benefit and any accumulation values and cash values, and, if applicable, premium payments or COI charges, will be reduced if an accelerated death benefit is paid.
   (c) A clear statement that the owner should seek additional information from his personal tax advisor about the tax status of the accelerated death benefit payment.
   "Prominent print" means, for example, all capital letters, contrasting color, underlined or otherwise differentiated from the other type on the form.

C. BENEFIT OPTIONS

(1) The form shall describe the accelerated death benefit option or options that are available to a Covered Person, such as the payment of all or part of the death benefit of the certificate.
(2) The form shall describe the payment options available to a Covered Person. The description shall include the option to receive the accelerated death benefit payment in a lump sum, and may include an option to receive the benefit in periodic payments.
(a) Periodic payments based on the continued survival or institutional confinement of a Covered Person are prohibited.
(b) An option to receive the benefit in periodic payments shall include a description of how such periodic payment will reduce the death benefit.
(3) For purposes of complying with the requirements of IRC Section 7702B and IRC Section 101(g) ("federal requirements"),
(a) Periodic payments may be subject to the per diem specifications of the federal requirements to avoid unfavorable tax consequences. If the application of the federal requirement results in a reduced accelerated benefit from that requested, the remaining death benefit that can be accelerated will be available for acceleration in future months.
(b) Lump sum payments may be subject to the per diem specifications of the federal requirements to avoid unfavorable tax consequences. In this situation, the per diem payments are annualized to determine the maximum lump sum amount payable every 12 months. If the application of the federal requirement results in a reduced accelerated benefit from that requested, the remaining death benefit that can be accelerated shall be available for acceleration in future months.
(c) If, before the payment of the full acceleration benefit, whether periodic or lump sum, a Covered Person dies, the payments shall cease and the remaining accelerated benefit shall be paid as a death benefit pursuant to the certificate.
(d) If, before the payment of the full acceleration benefit, the Covered Person is not re-certified as having met the federal requirements for chronic illness, the remaining accelerated benefit will be returned to the death benefit under the certificate.

Texas 28 TAC §3.4306
Methods for Determining Benefits and Allowable Charges and Fees
The acceptable methods for determining an acceleration-of-life-insurance benefit, and allowable charges and fees associated with the benefit, are as specified in this section.

(1) Additional Premium or Cost of Insurance Charge Method. The acceleration-of-life-insurance benefit provision must specify and define any separately identifiable additional premium or cost-of-insurance charge, if applicable to the life insurance contract, for any acceleration-of-life-insurance benefit, and, upon

payment of such benefit, reduce the death benefit of the contract in an amount equal to the acceleration-of-life-insurance benefit paid.

(2) Actuarial Discount Methods. The acceleration-of-life-insurance benefit provision must specify or define any administrative fee, not to exceed $150, and any sound and reasonable actuarial discount, calculated in accordance with either subparagraph (A) or (B) of this paragraph, as applicable, which may reduce the amount of the acceleration-of-life-insurance benefit in instances where no additional premium or cost-of-insurance charge is payable in advance by the policy or certificate holder. Upon payment of such benefit, the death benefit of the life insurance contract will be reduced by no more than an amount equal to the acceleration-of-life-insurance benefit paid, plus the actuarial discount and any administrative fee deducted to provide the benefit. Each subsequently approved acceleration-of-life-insurance benefit request may provide for an administrative fee and discount, subject to the limits defined in this paragraph. The acceleration-of-life-insurance benefit may be calculated based on either the present value actuarial discount as described in subparagraph (A) of this paragraph, or, in regards to an insured with a terminal illness, on the interest-only actuarial discount as described in subparagraph (B) of this paragraph.

(A) Present Value Actuarial Discount. The acceleration-of-life-insurance benefit may be based upon the present value of future benefits provided under the life insurance contract, less the present value of future premiums, plus the present value of future dividends, if applicable. The actuarial discount used to reach this present value calculation must be appropriate to the life insurance contract design and based on sound actuarial principles. For an insured with a terminal illness, the present value actuarial discount shall not reduce the amount of benefits accelerated by more than 15% of the face amount of such benefits. For other insureds eligible for acceleration-of-life-insurance benefits, the interest rate used to derive the present value actuarial discount applied to the face amount of the benefits accelerated shall not exceed the greater of:

(i) the current yield on 90 day treasury bills;

(ii) the current maximum adjustable policy loan interest rate based on Moody's Corporate Bond Yield Averages, or any successor thereto;

(iii) the life insurance contract's guaranteed cash value interest rate plus one percent per annum; or

(iv) an alternate rate approved by the Commissioner.

(B) Interest-only Actuarial Discount. This discount may be applied only in regards to the death benefit of an insured with a terminal illness. The interest-only actuarial discount shall not reduce the amount of the acceleration-of-life-insurance benefit by more than 10% per annum.

(3) Lien Method. In instances where no additional premium or cost of insurance charge is payable in advance by the policy or certificate holder, and the acceleration-of-life-insurance benefit is not reduced by a present value or interest-only actuarial discount, the insurer may consider the acceleration-of-life-insurance benefit, any administrative expense charges, any due and unpaid premiums and any accrued interest as a lien against the death benefit of the life insurance contract, in accordance with the following:

(A) The acceleration-of-life-insurance provision must specify or define any administrative fee, not to exceed $150, and any interest charge on the amount of the acceleration-of-life-insurance benefit.

(B) Access to cash value, if any, may be restricted to any excess of the cash value over the sum of the lien and any outstanding loans. Future access to additional policy loans and any partial withdrawals may also be limited to any excess of the cash values over the sum of the lien and any other outstanding policy loans.

(C) The lien cannot exceed the value of the death benefit of the life insurance contract. The contract shall state that coverage will terminate at such time as the lien equals the value of the death benefit.

(D) The interest rate and interest rate methodology used in the calculation shall be based on sound actuarial principles and disclosed in the contract and actuarial memorandum. The interest rate accrued on the portion of the lien equal to the cash value of the life insurance contract at the time of the benefit acceleration shall be no more than the policy loan interest rate stated in the contract. Each subsequently approved acceleration-of-life-insurance benefit request may provide for an administrative fee and lien, subject to the limits set forth in this paragraph. The maximum interest rate used shall not exceed the greater of:

(i) the current yield on 90 day treasury bills;

(ii) the current maximum adjustable policy loan interest rate based on Moody's Corporate Bond Yield Averages, or any successor thereto;

(iii) the policy's guaranteed cash value interest rate plus one percent per annum; or

(iv) an alternate rate approved by the Commissioner.