DATE: February 3, 2012

TO: IIPRC Product Standards Committee (PSC)

FROM: Industry Advisory Committee

SUBJECT: Group Term Life Policy/Certificate Standards Dated January 17, 2012

General Comments

We note that there are numerous annotations regarding a comparison that was done between Individual Term Life standards and the Group Term Life draft of standards, as well as comments questioning why the group standards draft differs from the individual standards.

Our comments that follow address most of these comments. However, in general, it is important to understand that in individual insurance, the individual applicant/policyholder makes all the benefit decisions for the policy and the relationship is one on one between the policyholder and the insurance company. In group insurance, the relationship is between the insurance company and the policyholder/employer who makes all the eligibility, administrative and benefit decisions for the plan; the Employee and Dependents are third party beneficiaries under the plan with some benefit decisions and rights.

Whereas the individual standards referred to “company”, the group standards refer to “insurance company” for clarity to distinguish the insurer from the policyholder that is also in many cases a “company”.

The comments that are highlighted in red represent those that were discussed during the PSC Public Call on January 24th.

Re: November 29, 2011 Draft Changes

We advised that these were not included and should be added.

Re: Fraternals

We advised that fraternals do not sell any group insurance so statements to accommodate them do not need to be included in these standards.
Scope, Second Paragraph, PSC Comments, Page 1

As stated in the first paragraph of Scope, the standards apply only to group term life products. For group universal life and group variable universal life products, which are the next common product after group term life, extensive changes would be required and our expectation is that each of these would be developed as a separate set of standards. Likewise, for group whole life products, our expectation is that because of the nonforfeiture and cash value requirements a separate set of standards should be developed. Having said this, our expectation is that, to the extent possible, the group term life standards would be used as a foundation to develop the group universal life, variable universal life and whole life standards.

Additionally, as stated in the first paragraph of Scope, these standards are intended at this time to only apply to single employer groups, including single employer trustee groups. It is industry’s expectation that once the single employer standards are finalized, slight modifications (to be accommodated as variable material) could easily be made to accommodate multiple employer groups (with or without a trustee arrangement), labor unions (with or without a trustee arrangement), and association groups that have employment factors (with or without a trustee arrangement), other than affinity association groups such as AARP.

Definition of Application, Page 1

It has been the IIPRC practice to include the second sentence in all definitions which appear on page 1 as part of the Scope section, when needed, so we did the same. Our recollection is that regulators insisted that this sentence be included in the definition, and we believe this was because there are different perceptions about what an application is or is not, and some would argue that an application only needs to be filed if it is attached at issue.

§1. ADDITIONAL FILING SUBMISSION REQUIREMENTS

B. CERTIFICATES

PSC Comments at end of Item (7), Page 5

Group policy and certificate forms that are in use today, and those that had been filed and approved in all jurisdictions for many years, do not include the Right To Review Group Policy/Certificate. An employer negotiates a plan of benefits for his employees and does not need the opportunity after the policy is issued to “change his mind”. Since the plan design is negotiated by the employer, there does not need to be an opportunity for employees to “change their mind.” Additionally, for non-contributory insurance, all those eligible do not have the choice to opt out, so they also do not need a “free look”.

§3. DEFINITIONS AND CONCEPTS

“Child”, Item (4)(b), Page 8

It is not appropriate to make the “policy” change suggested since the definitions would be required to be included in the group certificate and are not required to be in the group policy. Since the term “Child” is already defined in (4)(a), we suggest that you say: “A Child may be…”.

“Child”, Item (4)(c), Page 8

We suggest changing “child” to say “Child”.

§4. POLICY AND CERTIFICATE PROVISIONS

G. DATE INSURANCE ENDS UNDER THE POLICY, item (1)(b), page 15

I. ELIGIBILITY PROVISIONS, Item (1), page 17

M. FILING A CLAIM, Item (2), page 20

S. PAYMENT OF PREMIUM, Item (1), page 24 and Item (4) on page 26

By proposing to change the “such as” references to “including”, you have moved from “permissive” to “required”. The IIPRC practice has been to use “such as” to provide examples of what may be included and not mandate what has to be included when flexibility/variability is needed. When you say “including” and then the following items are “may” it is somewhat a contradiction of terms since “include” is almost a “shall”.

We have reviewed each section affected by the proposed “including” changes and think that we understand what the concern may be, specifically that a company may submit unfair or inappropriate requirements or standards that may not benefit the plan participants. We note that the FAIRNESS provision on page 7 would allow the IIPRC to avoid such situations. In these sections, we included standards that are typically included, but by use of “such as” allowed for some tweaks to be made by employers and the insurance company during the negotiation process.

On page 15, DATE INSURANCE ENDS UNDER THE POLICY, all of the items may be included, some may be omitted [such as the participation requirements in item (ii)], or a new condition may be added, such as to include in sub-item (ii) a condition based on the sale of some subsidiaries of the employer, closing of some office locations, etc.

On page 17, ELIGIBILITY PROVISIONS, since each sub-item allows a high level of variability and flexibility to accommodate specific employer needs, and the sub-items are all “shall”, we could agree to “including”. However, it should be noted that another
reason for using “such as” was to recognize that what is included in a named certificate (which would include an effective date of coverage since the certificateholder has already met the eligibility requirements for initial coverage) would include much less detail than what would be included in a no-name certificate (which would not include an effective date of coverage).

**On page 20, FILING A CLAIM**, the item (2) claim process for WOP and AD&D would need to be as flexible as item (1) addressing the claim process for life insurance. For example, the employer may want certain claims to be sent to a third party claims administrator, or a certain employer location, or a very large employer may wish to allow longer periods of time than those specified.

**On page 26, PAYMENT OF PREMIUMS/Retrospective Rate Changes**, retrospective rate changes are unique from employer to employer and are carefully negotiated by the employer and insurance company, so a great deal of flexibility is needed when such an agreement is included. Note that the item is a “may” and is somewhat contradicted by the use of “including” in the lead-in.

**G. DATE INSURANCE ENDS UNDER THE POLICY, Item (1)(b)(iv), Page 16**

At the end of the item, change to say “to the policyholder.”

**J. ENTIRE CONTRACT, PSC Comments, Page 18**

We presume that the “applicant” referred to in the PSC comments is the employer and the enrollee. For group term life insurance, the group policy and certificate Incontestability provisions address this. The regulator drafting the individual term life standards preferred Entire Contract, but group forms do it differently. We believe the Fraud Notice in the application, Enrollment Form and Statement of Insurability also adequately address this.

**K. DISCRETIONARY CLAUSES, PSC Comments, Page 18**

Industry would have serious concerns if the word “sole” was removed.

Multiple decisions are required to be made by an insurance company in the administration of its insurance products and insurance companies must have the ability to exercise discretion otherwise they could not perform their duties as insurance companies. For example if AD&D coverage is provided in conjunction with a policy of life insurance, and a death occurs, multiple decisions would have to be made i.e. was the death "accidental" as defined under the terms of the policy, if determined to be accidental is it excluded under the AD&D exclusions provision, etc. All decision making involves an element of discretion or judgment which should be allowed. What should be
prohibited is when an insurance company attempts to make itself the sole determiner of facts and avoid its determinations from being reviewed by a court of competent jurisdiction.

**L. EVIDENCE OF INSURABILITY, PSC Comments, Item (1), Page 18**

The words “may” and “applicable” were used to distinguish between what would be included in a named certificate (which would include an effective date of coverage since the certificateholder has already satisfied the evidence of insurability requirements for initial coverage) from what would be included in a no-name certificate (which would not include an effective date of coverage).

In a named certificate situation, evidence of insurability requirements had already been met, so the certificate would only have to address evidence of insurability that would be required after the coverage provided under the certificate takes effect, such as for increasing coverage.

In a no-name certificate situation, all evidence of insurability requirements need to be addressed, including what is required for initial coverage and later.

We offer two possible alternatives to provide clarification:

**Alternative #1**

Change the second sentence of item (1) to say: “The provision shall identify evidence of insurability requirements applicable to named and no-name certificates, as appropriate, such as those:”

**Alternative #2**

Change item (1) as follows:

“(1) For certificates issued on a no-name basis, the certificate shall include provisions describing all of the evidence of insurability requirements, including what is required for initial coverage and what may be required after the effective date of the certificate. For certificates issued on a named basis, the certificate shall include provisions describing the evidence of insurability that may be required after the effective date of the certificate, such as for coverage increases.

If evidence of insurability is required to effect coverage under a certificate, the certificate provisions shall identify the applicable evidence requirements, such as those: ”.”
Note that item D. LIFE INSURANCE BENEFITS on page 40 addresses the death benefits that are available under the group plan.

Note that S. PAYMENT OF PREMIUMS on page 24 addresses premium issues.

Also note that “dividend values”, “indebtedness” and “premium adjustments with interest” are not group term life issues.

We see a similarity between the issue we are facing here and the issue we faced with the individual life insurance Death Benefit Proceeds where states had different interest rate requirements. To determine the jurisdiction which would decide the applicable interest rate, some states established their own rules, such as the state where the policy was issued, the state where the policyholder resided at time of death, or the state where the beneficiary lives. Rather than pick one of these jurisdictional rule, and chance situations where state law may override the jurisdictional standard, the Compacting States at the time decided to develop a national interest rate standard which is used today for individual life insurance standards (as well as proposed for use with group life insurance standards) and which was also recently implemented for disability income standards.

In the belief that certificateholders should know the time limit applicable to them without having to do the legal research on their own, and potentially miss the deadline for legal actions, we recommend that the PSC develop a national standard for the time limit.

After further reviewing this item, we believe that item (f) needs to be moved to become new item (2)(b). This is because Proof of Loss for life insurance benefits is not subject to a time limit for submitting the proof. However, to apply for waiver of premium or accidental dismemberment benefits, and other similar benefits, time limits do apply.

For the time limit on legal actions which we are suggesting become new item (2)(b), our research shows that 2 states require 60 days/5 years [one is a Compacting State], 4 states require 60 days/6 years [all are Compacting States, and one falls into this 5 year category by default] and all others require 60 days/3 years.

Based on what most states require today, we prefer the following language:

“A legal action on a claim may only be brought against an insurance company during a certain period. This period begins 60 days after the date Proof of Loss is filed and ends 3 years after the date such Proof of Loss is required.”
**S. PAYMENT OF PREMIUM, Item (2)(a), Page 26**

We seek clarification as to why the suggested 6 month period was changed to 12 months. The suggested change has the effect of providing a one year rate guarantee for every policy period. When there are no rate guarantees in effect for a group policy, only the first policy period has a “rate guarantee” since the premium can only be changed after the first policy anniversary.

While most companies today may adhere to “of at least one policy year”, it should be noted that there are circumstances in the group market where an insurance company would need the flexibility to respond to a change in the risk, and it should be noted that “change” could mean an increase or decrease in premiums. For example, some employers have employees working overseas, and if hostilities break out in those countries, the insurance company may need to re-assess the risk and charge accordingly. Another example is volatility in some industries, where mergers and acquisitions may require a re-assessment of the premium, which may result in an increase or a decrease.

Since the group insurance market is a very competitive one, it is doubtful that any insurance company would abuse such flexibility and we have not heard of such abuse. Persistency is a high commodity in the group market and no insurance company would risk giving some employers an incentive to move to another insurance company.

**S. PAYMENT OF PREMIUM, PSC Comment, Item (4)(a) and (b), Page 26**

When the PSC suggested changing “such as” to “including” in the lead sentence, the parenthetical language in (a) and (b) would then have to be changed to say “(such as not to exceed twelve months)”. The intent was to give an example and not prescribe what each retrospective rate change period would have to be.

In (b), “such as” should be reinstated - it is allowed earlier in (b). As stated earlier in these comments, the terms of the performance guarantee is a negotiated agreement between the employer and the insurance company and the standards should not prevent the two parties from having the flexibility needed.

**S. PAYMENT OF PREMIUM, PSC Comment, Item (5), Page 27**

In the first sentence of item (5), the word “company’s” should be changed to say “insurance company’s” for consistency with the other standards.

In response to the PSC comment, we advise that the amount an insurance company may be obligated to pay for failure to meet agreed upon performance standards needs to be reasonable in relation to the size of the case, the coverage provided, number of lives insured, etc. Tying the amount at risk for performance guarantees to a percentage of the
premium limits an insurer's liability is a customary practice in the industry and is a reasonable measure for determining the amount due the policyholder.

**U. REINSTATEMENT, Pages 28-29**

The industry debated as to whether or not to include this standard – we finally decided to include it on a “may” basis and said very little about it. We believed this would be harmless since no insurance company would ever file such a provision, because our research of forms in use revealed that no insurance company uses this provision.

*The issues raised by the PSC has convinced us that, at this time, the standard should be deleted since there is no need for it.*

Whereas individual coverage is on a single risk basis, group coverage is on a multiple risk basis potentially impacting thousands of certificateholders. It would be an administrative nightmare to allow certificateholder reinstatement, and for practical reasons, if the group policy terminates, there would not be a group policy under which to reinstate coverage. Additionally, individual insurance is usually age rated, so it becomes important for a policyholder who lapses a policy to want to reinstate to “save age”. Group insurance policies are rated on an attained age basis, so preserving the original issue age is not an issue.

If a group policy terminates for non-payment of premium or by the employer’s request, the employer can re-apply for a new group policy. If in the interim Covered Persons converted their coverage, they can keep the conversion policy as well as become insured under the new group policy if they are eligible to do so. In some cases the new group policy provides a different plan of benefits (may be less costly), so a reinstatement concept would not work since the amount of benefits that had been in force under the previous group policy may no longer be available under the new group policy.

The deletion of the REINSTATEMENT standard also requires the deletion of references to reinstatement in O. INCONTESTABILITY in item (1)(a)(iii) on page 22 and item (2)(b)(iii).

Note that the Incontestability standards applicable to the group policy (page 22) already address reinstatement.
V. SUICIDE, Item (1), Page 29

For consistency with other standards, we suggest that the second sentence be changed to say:

“If a suicide provision is included, the provisions describing the effect of suicide may be included in the policy but shall be included in the certificate. The provision shall describe……”

§5. POLICY AND CERTIFICATE BENEFITS

A. CONTINUATION, Item (2), Page 30

We suggest that the first sentence be changed to say:

“If the policy includes coverage for Children, the policy shall allow for continuation of insurance …”.

B. PORTABILITY OF GROUP TERM LIFE INSURANCE, Item (d), Page 33

We suggest changing the second sentence of the second paragraph of this item to say:

“If portability coverage is to be provided under the same group policy, the provisions shall state whether or not evidence of insurability is required and, if required, describe the applicable requirements.”

We suggest taking the last sentence of that paragraph and making it a new item (e):

“(e) The provisions may allow the insurance company to require evidence of insurability if the Employee wants a preferred class premium.”

The remaining alpha order needs to be updated accordingly.

B. PORTABILITY OF GROUP TERM LIFE INSURANCE, Previous Item (h)/New Item (i), Page 34

The addition of this information was requested by a regulator and we agree that the information, while it may not show up in a certificate, clarifies for insurance companies and regulators how this is usually handled.
B. PORTABILITY OF GROUP TERM LIFE INSURANCE, Previous Item (i)/New Item (j), Page 34

When group insurance ends, the portability application period and the conversion application period often run concurrently. The purpose of this item is to explain what happens if death occurs in a situation where one applied for portability coverage and if one did not. If an insured dies within a specified period of time and did not apply to port coverage, the death benefit will be the amount that person was entitled to convert. If the insured dies within a specified period of time and did apply to port coverage, the death benefit will be the amount that person was entitled to convert, and any premium paid for portability will be refunded.

C. CONVERSION, PSC Note, Page 34

The order we decided on was based on the logic that if insurance is continued, PORTABILITY and CONVERSION options are not available during the period of continuation, so CONTINUATION would come first, especially since the employer may pay for some of it. When insurance ends under a continuation and coverage ends (the person does not once again become insured under the group policy), the person can elect PORTABILITY (if such option is included under the group plan) or CONVERSION (which is always required to be an option under the group plan). Since PORTABILITY is cheaper than CONVERSION, and one is entitled to CONVERSION when PORTABILITY ends, PORTABILITY was included next and CONVERSION was included last.

C. CONVERSION, Item (1), Page 34

We explained that for individual insurance, conversion is an optional benefit, so the specifications page of an individual life policy is required to show it if the insured bought it. In group term life insurance, conversion is mandated by all states and is therefore the right to convert is included in all certificates.

C. CONVERSION, PSC Comments, Item (1)(b) (ii) e), Page 35

Group term life insurance is annually renewable term insurance and that there is no guaranteed renewable concept.
C. CONVERSION, Item (1)(c) (vi), Pages 36

Based on PSC comments there is some confusion about whether or not additional benefits would be in force under various circumstances when insurance ends. We will be suggesting some clarifying language in the items that follow, and would also suggest that we change language in this item so that the second sentence will say:

“The conversion policy shall be issued for the amount of life insurance to which a Covered Person is entitled to convert, and may be issued with other benefits such as accidental death and dismemberment benefits, accidental death benefits, waiver of premium benefits, etc. (“additional benefits”), whether or not such benefits were in effect on the date insurance ended or was reduced.”

It is important to note that no state mandates that conversion be made available for additional benefits, and in most group plans a Covered Person would only be entitled to convert his amount of life insurance.

C. CONVERSION, Item (1)(c) (ix) Page 36

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the Employee’s life insurance will continue without additional benefits under the terms of the certificate.”

C. CONVERSION, Item (1)(c) (x) Page 36

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the insurance company shall pay the amount of life insurance without additional benefits for which the Employee was approved …”.

We note that “convert” was changed to “port”. The correct word is “convert”. If death occurs during a conversion period and portability had not yet been finalized, the benefit will be the conversion benefit, and the portability transaction will be cancelled and premiums returned. This is stating the same procedure stated in B. PORTABILITY, Previous Item (1)(i)/New Item (1)(j) on page 34.

C. CONVERSION, Item (1)(c) (xi)(C) Page 37

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the insurance company shall pay the amount of life insurance without additional benefits for which the Employee was approved …”. 
C. CONVERSION, Item (1)(c) (x)(D) Page 37

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the insurance company shall pay the amount of life insurance that the Employee was entitled to convert ...”.

C. CONVERSION, Item (1)(e) (vi), Page 39

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say

“The conversion policy shall be issued for the amount of life insurance to which a Dependent is entitled to convert, and may be issued with other benefits such as accidental death and dismemberment benefits, accidental death benefits, waiver of premium benefits, etc. (“additional benefits”), whether or not such benefits were in effect on the date insurance ended or was reduced.”

C. CONVERSION, Item (1)(e) (viii), Page 39

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the maximum amount that may be converted shall be the Dependent’s life insurance amount without additional benefits that ends or is reduced under the certificate.”

C. CONVERSION, Item (1)(e) (ix), Page 39

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the Dependent’s life insurance without additional benefits will continue under the certificate.”

C. CONVERSION, Item (1)(e) (xi)(C), Page 39

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the insurance company shall pay the amount of life insurance without additional benefits for which the Dependent was approved...”.
C. CONVERSION, Item (1)(e) (xi)(D), Page 40

To further clarify that additional benefits would not be payable if death occurs during a conversion period, we suggest changing this item to say: “the insurance company shall pay the amount of life insurance that was entitled to be converted under the certificate.”

APPENDIX A, Item (6), Page 41

We suggest changing “the name, number and title of the policy” to say “the name, number and title of the policy or certificate,”.

APPENDIX A, Item (7), Page 42

We suggest that wherever “policy” shows up (twice), that you substitute “policy or certificate”.

Submitted by:

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