DATE: July 8, 2013

TO: IIPRC Management Committee

FROM: Industry Advisory Committee

SUBJECT: Group Term Life Standards:
- Accelerated Death Benefits (Dated 3/26/13)

_Idaho Comments Dated June 13, 2013_

Idaho’s comments indicate that perhaps a better understanding of group benefits and accelerated death benefits may be needed.

It is important to keep the following in perspective:

1. We are in the process of adopting standards for _group insurance_ and it is the employer who will decide which triggers he will make available to his employees.

2. The insurance company in most cases will file only the triggers that it wants to offer to employers, but in some cases the insurance company will file all of the available triggers for flexibility. Based on today’s group market, it is highly unlikely that more than three triggers will be offered to employers, and most employers will select two, one of which has to be the terminal illness trigger, since this is a “life” insurance benefit, and a company may not offer only morbidity triggers.

3. If more than one accelerated death benefit trigger is included in a group life certificate, the employee is eligible to accelerate under each, provided that the maximum accelerated death benefit has not been exhausted under another trigger, and that the employee meets the requirements of the trigger. For example, the employee has a $100,000 death benefit and can accelerate up to $80,000 of that amount. His certificate includes triggers for terminal illness and conditions requiring extraordinary medical treatment. The employee requires an organ transplant and accelerates $40,000 to help pay for the transplant costs. The employee’s body rejects the transplant and consequently the employee is diagnosed as terminally ill. The employee is now eligible to accelerate any amount up to the remaining $40,000 of his maximum accelerated death benefit.

_We do not understand why Idaho believes that these standards create “unreasonable hurdles”, that “insurer has too much discretion”, and that beneficiaries (employees) would be unfairly impeded “from receiving benefits in a timely manner.”_
Death benefits have traditionally been payable upon death. An accelerated death benefit may not be “beneficial” to insurance companies who would now have to part with the death benefit before death, but such a benefit is definitely beneficial to employees, which is why employers want to include it in their group insurance plans.

The trend in the marketplace has been to allow ADL triggers in accelerated death benefits to provide insureds greater flexibility in paying for care that is needed. [Of note is IRC Section 101(g) which extends tax preferential treatment currently available for terminal illness to an ADL trigger if the benefit complies with various requirements. Today, this is not sold on a group basis, so we have not asked to include this as a trigger. What we have asked for is the general ADL trigger.] If the accelerated death benefit chassis is used to fund qualified long-term care benefits, the product will have to be filed under the IIPRC long-term care insurance standards. The standards that we are currently focused on are not intended to provide such benefits – for example, accelerated benefits received under these standards are not exempt from federal income taxes and the benefits provided are not contingent upon receipt of qualified services/supports.

Idaho is suggesting that we include an ADL requirement of “no more than 2 ADL criteria.” We have no objection to this suggestion and think it is a good one.

Submitted by:

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