To: The IIPRC Management Committee

From: Commonwealth of Kentucky

Subject: ROP Term Product Standards

This [letter] is being sent on behalf of Kentucky as a member of the IIPRC. The comments are intended to provide input on the Term policy standards promulgated by the Standards WG and currently exposed for comment by the IIPRC. I realize that, for some of the exposed Term standards, the comment period has expired but for others it has not so Kentucky is providing this input.

The particular product on which we feel clarification is in order is commonly called Return of Premium (ROP) Term. Structurally, the product usually provides coverage to age 95. Premiums are level for ‘n’ years (‘n’ being, again most commonly, 20 or 30 years). Premiums are level for the ‘n’ year period and then increase on an ART basis to the end of the coverage period.

At the end of the ‘n’ year period, if the policy is still in force, either a cash value benefit or an endowment benefit equal to a return of the policy premiums paid over the ‘n’ year period is available.

There is a difference of opinion among regulators as to how this product should be handled from a nonforfeiture law compliance perspective. Some states have indicated that the structure of the benefit is such that it doesn’t produce values that comply with the law and so do not permit its sale in their state. The majority permit its sale, either because they don’t review the actuarial nonforfeiture compliance demonstration or because they deem the nonforfeiture compliance demonstration submitted to them to be acceptable (where some other states wouldn’t).

How should this benefit be treated from the perspective of the Term standards currently under consideration by the IIPRC? A ROP Term plan could arguably be submitted to the IIPRC under the currently-being-considered Term standards (there is no specific exclusion for this type of product in the Scope section of the Term standards). The Actuarial Opinion requirements included in the Term policy standards (which require a demonstration of nonforfeiture compliance) are fairly straightforward and non-controversial since for <u>most</u> term policies nonforfeiture values are not an issue and, where they are, the appropriate compliance demonstration is standard and universally accepted. However, an ROP Term nonforfeiture compliance demonstration is not. The IIPRC could receive a number of different compliance demonstrations and, in the absence of a methodology defined as being acceptable to the IIPRC, a company would expect their demonstration to be approved.

Alternatively, merely carving out ROP Term from the currently proposed Term standards or handling the ROP benefit as a stand alone rider with its own set of standards will not address the issue either until a decision on if, and how, ROP Term nonforfeiture values are to be shown to be in compliance with the Standard Nonforfeiture Law is made.

Kentucky would like to propose a couple of options for dealing with the ROP Term issue. First, ROP Term could be explicitly excluded from the Term policy standards currently being considered for adoption by the IIPRC. This could be accomplished by amending the ***Scope*** section of those standards to add the phrase **Return of Premium (ROP) term plans,..**to the beginning of the second paragraph of the **INDIVIDUAL TERM LIFE INSURANCE POLICY** and **INDIVIDUAL JOINT LAST TO DIE SURVIVORSHIP TERM LIFE INSURANCE POLICY** standards. No change is necessary to the single premium versions of the Term standards since ROP benefits are not applicable to single premium term products. This approach would allow companies to submit non-ROP Term products to the IIPRC in the near future but might require a technical amendment later to handle the ROP Term product in the standards.

Another option, and the one Kentucky would prefer, is to avoid sending the two current Term standards affected to the IIPRC Management Committee for approval until those standards can be revised to incorporate provisions that clarify their applicability to ROP Term. This could be "fast tracked" at the WG level to get things done as soon as possible. This approach would not require going back to the IIPRC in the future with a technical amendment, although it does delay final approval of the affected standards somewhat.

I appreciate your consideration of these comments on Kentucky's behalf.

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