



States, Strength & Speed Aligned

MEMORANDUM

TO: IIPRC Management Committee

FROM: Product Standards Committee

DATE: November 12, 2013

SUBJECT: Group Term Life Insurance Standards for Accelerated Death Benefits and Additional Standards for Incidental Guaranteed Minimum Death Benefits for Individual Non-Variable Deferred Annuities

The Product Standards Committee (“PSC”) of the Interstate Insurance Product Regulation Commission (“IIPRC”) is charged with developing proposed drafts of Uniform Standards. In carrying out its charge, the PSC has finalized revised drafts of the following Uniform Standards:

1. **Group Term Life Insurance Standards for Accelerated Death Benefits** (“Group Accelerated Death Benefits”) and
2. **Additional Standards for Incidental Guaranteed Minimum Death Benefits for Individual Non-Variable Deferred Annuities** (“GMDB”).

The PSC is recommending that the Management Committee consider the revised drafts of the proposed Uniform Standards for approval at its earliest opportunity. The revisions to the proposed Uniform Standards are marked in the attached drafts.

The proposed revisions were developed through a very deliberative and open process following the Management Committee’s referral back to the PSC after the public hearing on the proposed Uniform Standards on July 22. Both proposed Uniform Standards generated public comments before the Management Committee’s referral, and both proposed Uniform Standards were subject to additional public participation opportunities at the PSC level. All public comments received and supporting documentation considered by the PSC are posted on the IIPRC’s Rulemaking Docket (http://www.insurancecompact.org/compact_rlmkng_docket.htm). Both proposed Uniform Standards were subject to public participation by written comment and teleconference meeting on November 5.

Key issues for the proposed Group Accelerated Death Benefits Standards were defining the qualifying events and recognizing the requirements of Section 7702B and 101g of the Internal Revenue Code when providing tax-qualified accelerated death benefits. The PSC also addressed aspects of these Uniform Standards raised by member states and by comments received during

the 5-year review of the Standards for Accelerated Death Benefits for individual life insurance policies. Detailed explanations of the proposed revisions to the Group Accelerated Death Benefits Standards are explained in more detail in the attached chart.

The key issue for the proposed GMDB Standards was whether the definition of incidental benefits would permit unearned persistency bonuses. Based on deliberations of the Actuarial Working Group, the PSC recommends changing the account value option of the definition to permit death benefits up to 125% of the cash value and delete the reference to bonuses. The PSC recommends clarifying that the accumulation of premiums option specify that the interest rate applied to the premiums for purposes of the death benefit may be applied at any point in the policy year, provided the effective annual interest rate does not exceed 10%. The PSC further recommends the addition of a drafting note stating the definition of the gain option may not be equivalent to a policyholder's actual taxable gain at time of death.