



## MEMORANDUM

**TO: IIPRC Management Committee**

**FROM: Product Standards Committee**

**DATE: June 21, 2012**

**SUBJECT: Group Term Life Insurance Uniform Standards: Policy and Certificate Standards for Employer Groups**

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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 the proposed **Group Term Life Insurance Policy and Certificate Standards for Employer Groups** and is recommending that the Management Committee initiate the rulemaking procedure<sup>1</sup> with respect to this proposed uniform standard.

The NAIC National Standards (EX) Working Group developed and transmitted to the PSC initial drafts of uniform standards for group term life insurance for employer groups. The PSC has thoroughly reviewed the Group Term Life Insurance Policy and Certificate Standards for Employer Groups (“Group Term Policy Standards”). The Group Term Policy Standards cover the core requirements for policy and certificate forms submitted to the IIPRC for employer-employee group term life coverages.

The PSC added required customary language about mix-and-match and self-certification. The PSC recommends the Group Term Policy Standards be available for mix and match to be used in combination with state-approved group life insurance forms in accordance with §111 of the IIPRC Operating Procedure for the Filing and Approval of Product Filings. The PSC recommends product filings submitted under the Group Term Policy Standards be subject to prior review and approval and not permit self-certification.

During the review of the Group Term Policy Standards, the PSC received written comments, primarily from the Industry Advisory Committee, and held four public conference calls to receive comments from member states, the Legislative Committee, the Consumer Advisory Committee and the Industry Advisory Committee as well as other interested regulators and parties.

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<sup>1</sup> The rulemaking procedure is set forth in the Rule for Adoption, Amendment and Repeal of Rules for the IIPRC.

The Product Standards Committee spent considerable time discussing the interaction and coordination of the continuation, portability and conversion provisions. These concepts address the various and mutually-exclusive options that can or must be offered by the employer to the employee when group life insurance ends.

Under the Group Term Policy Standards, the term “continuation” generally refers to options and circumstances where the employment relationship has not ended but that the employee does not meet the relevant definition for actively working. The policy must allow for continuation of insurance when an employee is totally disabled at the time the group life insurance ends. When there is coverage for children, continuation for a child with a mental or physical disability is required. The policy may allow for continuation during family and medical leave as permitted by FMLA as well as at the option of the policyholder.

Under the Group Term Policy Standards, the term “portability” generally refers to options and circumstances where the employment relationship has ended. The policy may allow at the option of the employee, portability of group term life insurance when the group policy has ended. The Industry Advisory Committee reports portability provides an affordable alternative to the conversion right. The Group Term Policy Standards establish content requirements for the group master policy and certificates of insurance. Companies would still have to comply with applicable state requirements governing the use and issuance of any group policy issued for the purpose of portability coverage.

Under the Group Term Policy Standards, the policy must include conversion provisions in which the persons insured under the group policy have the right to buy an individual policy of life insurance from the insurance company when the group policy has ended. Evidence of insurability cannot be required if the application and premium is received during the conversion period. Further, the policy must provide an employee with a right of conversion under circumstances when the employee elects portability coverage but such coverage does not become effective or ends.

For continuation, portability and conversion, the uniform standards require provisions describing eligibility requirements, proof of eligibility requirements (if any), the type and amount of eligible coverage and the terms and conditions for election. These provisions must be in the certificate and can also appear in the policy. The portability and conversion options allow for the policy to state whether additional benefits, such as accidental death benefits, accidental dismemberment benefits, accidental death and dismemberment benefits, waiver of premium and accelerated death benefits are available.

The PSC had several discussions regarding the discretionary clause provision in the Group Term Policy Standards deciding to keep the provision “as is” and not to recommend changes to the provision transmitted by the NAIC’s National Standards Working Group. Based on the discussion among PSC members, the scope and permissibility of discretionary clauses in contracts for group product lines authorized by the Compact legislation varies widely across

states. Some states, like Texas and Michigan, indicated they prohibit discretionary clauses in employer-employee group term life insurance contracts.

The PSC suggests that any comments or concerns about the discretionary clause provision be raised, considered and discussed by all members and interested parties during the Management Committee's formal rulemaking process. The PSC recommends that the Management Committee conduct a survey and possible legal analysis regarding the scope and permissibility of discretionary clauses in contracts for group life and other group product lines authorized by the Compact across the Compacting States.

The PSC will next consider the remaining employer-employee group term life uniform standards including those covering the application, enrollment form, statement of insurability, and various benefit features. The PSC is available to respond to any questions or requests for information to assist the Management Committee during its rulemaking process.