



MEMORANDUM

TO: IIPRC Management Committee

FROM: Product Standards Committee

DATE: August 14, 2015

SUBJECT: Group Disability Income Insurance Uniform Standards

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 following draft uniform standards for the group disability income insurance product line and is recommending that the Management Committee initiate the rulemaking procedure¹ with respect to these proposed uniform standards:

- **Group Disability Income Insurance Policy And Certificate Uniform Standards For Employer Groups**
- **Uniform Standards for Riders, Endorsements Or Amendments Used To Effect Group Disability Income Insurance Policy Changes**
- **Uniform Standards for Riders, Endorsements Or Amendments Used To Effect Group Disability Income Insurance Certificate Changes**
- **Uniform Standards for Group Disability Income Insurance Enrollment Forms And Statement Of Insurability Forms**
- **Uniform Standards for Group Disability Income Insurance Statement Of Insurability Change Form**
- **Uniform Standards for Group Disability Income Insurance Initial Rate Filings**
- **Uniform Standards for Filing Revisions To Rate Filing Schedules In Group Disability Income Insurance Policies**
- **Group Policyholder Application Uniform Standards**

The group disability income insurance uniform standards are the first standards where the initial drafts were not developed by the NAIC National Standards (EX) Working Group. Pursuant to §103 of the Rule for Adoption, Amendment and Repeal of Rules for the Interstate Insurance Product Regulation Commission, on April 28, 2014, the Interstate Insurance Product Regulation Commission (IIPRC) issued notice requesting comments and held a public call on August 26, 2014 regarding the framework for the development of uniform standards for group disability

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

income products. The PSC received a proposal that included several draft standards from the Industry Advisory Committee (IAC) as well as checklists for group disability income product submissions from member states. In September 2014 the PSC created a Subgroup of eight member states with expertise in group disability income product filing review to meet weekly and work with IIPRC staff to review and discuss the submitted documents and draft recommendations to the PSC for its consideration.

During the development of these standards over the last ten months, the PSC received written comments, primarily from the IAC and the Consumer Advisory Committee (CAC), and held eight public conference calls to receive comments from member states, the Legislative Committee, the CAC and the IAC as well as other interested regulators and parties. Call summaries of all member and public calls of the Subgroup and the PSC were posted on the IIPRC's website weekly so all interested parties could follow the uniform standard development process and provide transparency into the decision-making process.

The PSC spent much of its time on the development of the Group Disability Income Insurance Policy and Certificate Uniform Standards for Employer Groups since they are the core standards for all the group disability income products. The Committee recommends these standards not be available for mix and match to be used in combination with State Product Components as described in Section in accordance with §111 of the IIPRC Operating Procedure for the Filing and Approval of Product Filings, except that they may be used in combination with state-approved group life insurance policies and annuity contracts, provided that the disability income rider and all the components associated with the disability income rider are filed and approved with the IIPRC. The PSC recommends product filings submitted under the Group Disability Income Insurance Policy and Certificate Uniform Standards be subject to prior review and approval and not permit self-certification.

The Product Standards Committee spent considerable time discussing the terms and concepts used in the policy and certificate, particularly refining the definitions of *Disability*, *Partial or Residual Disability* and *Total Disability*. The standards require that the disability income certificate provide at minimum *Total Disability* benefits under the traditional definition of (1) unable to perform substantial and material duties of the insured's regular job, occupation or specialty and (2) not in fact engaged in any job for wage or profit. Coverage for other disability benefit triggers is optional.

Under the standards for required provisions in the policy or certificate, the PSC agreed with a recommendation to add provisions outlining discontinuance and replacement requirements for situations where an employer moves its group insurance plan from one company to another as well as when in addition to a group disability income insurance plan, an employer may have employees insured under individual disability income insurance policies sold through the worksite and sponsored by the employer. These standards reflect common state requirements.

The PSC had several discussions regarding optional subrogation provisions as well as provisions that allow the insurance company to offset amounts payable for disability benefits by amounts

recovered from settlements or judgments against responsible third parties. After much discussion, analysis of provisions currently allowed by member states, and review of written and oral comments from the IAC and the CAC, the Committee revised these provisions to only allow offset for amounts received from a third party, minus legal fees, specifically in connection with lost income due to a disability. They also agreed that if the amount received from the third party does not specify the lost income amount, the insurer may estimate the amount using a percentage of the settlement amount based on pre-disability earnings, and to require that only allow subrogation or reduction in benefits from third party settlements may be applied, not both.

Under the Permissible Limitations or Exclusions standards, the PSC had several discussions about phrasing of the limitation as well as parity for mental health benefits. In order to provide consistency between Individual and Group Disability Income Uniform Standards, the Committee agreed to use the terminology that disability that “results from” certain listed actions or conditions may be limited or excluded. They also agreed to allow the same limitations or exclusions for drug and alcohol treatment and mental disorders as are permitted in the Individual Disability Income Uniform Standards. There was discussion on other specified Permissible Limitations and Exclusions, such as limitations for specified conditions and for conditions that cannot be verified through objective medical means. Again the PSC used several resources including provisions currently allowed by member states to inform its recommendations.

The standards include a section specifically for Incidental Benefits, containing twenty additional benefits that may be offered with group disability income products. These provisions formalize requirements for benefits the PSC found to be commonly allowed by member states.

Under the Uniform Standards for Group Disability Income Insurance Enrollment Forms and Statement of Insurability Forms, the PSC discussed the look back period for underwriting questions when a Statement of Insurability is required. Some interested parties advocate no limit to the look back period to allow for underwriting, similar to the Group Term Life Uniform Standards. The Committee recommends a 10 year look back period, consistent with the Individual Disability Income Uniform Standards.

Given the extensive, transparent and thoroughly documented drafting process preceding this recommendation, the PSC suggests that any comments or concerns about these provisions be raised, considered and discussed by all members and interested parties during the Management Committee’s formal rulemaking process.

The PSC also discussed uniform standards for initial rates and rate revisions for group disability income products. These standards are similar to those developed for the individual disability income insurance market, revised slightly to reflect the group market. The PSC does not recommend mix and match for the rate standards and also recommends that rates submitted for the group disability income products should be subject to prior review and approval and not permit self-certification.

In addition to the seven new Group Disability Income Uniform Standards, the PSC is recommending that the adopted Group Policyholder Application Uniform Standards for Group Term Life Insurance be amended to apply to all group products that are available to be filed with the IIPRC. These standards apply to the policyholder, not the certificate holder, and are not product specific. The policyholder application requests relatively generic information and does not contain underwriting questions. The suggested revisions were the subject of a public call and there was no opposition to the proposal.

The PSC is available to respond to any questions or requests for information to assist the Management Committee during its rulemaking process.