

**ADDITIONAL STANDARDS FOR RETURN OF PREMIUM FOR
INDIVIDUAL DISABILITY INCOME INSURANCE POLICIES**

Scope: These standards apply to individual disability income insurance policies or disability business overhead expense policies that provide an optional benefit for return of a percentage of premium either at specified intervals as provided herein or when the rider or policy is surrendered or terminated, less claims or benefits paid. The return of premium benefit can only be added to such policies at issue and only by separate rider, amendment or endorsement.

Mix and Match: These standards are not available to be used in combination with State Product Components as described in Section 111(b) of the Operating Procedure for the Filing and Approval of Product Filings.

Self-Certification: These standards are not available to be filed using the Rule for the Self-Certification of Product Components Filed with the Interstate Insurance Product Regulation Commission.

Drafting Note: The references to “policy” or “plan” do not preclude Fraternal Benefit Societies from substituting “certificate” in their forms.

As used in these standards, the following definitions apply:

The term “return of premium benefit” refers to an optional benefit for the return of part or all of paid premium that is added to the policy at issue by rider, endorsement or amendment and includes designs that offer cash surrender value benefits.

The term “premium” means the paid premium including the premium paid for the base policy and all riders and may include waived premium under a waiver of premium benefit.

The term “claims or benefits” are the paid disability income benefits under the base policy and may include premiums waived during the applicable period.

In addition to the Standards for Individual Disability Income Insurance Policies, the following standards, as appropriate, apply:

§1 **ADDITIONAL SUBMISSION REQUIREMENTS**

A. GENERAL

The following additional filing submission requirements shall apply:

- (1) The return of premium benefit filing shall include:

- (a) A listing of the types of disability income policies with which this return of premium benefit will be used, the policy form numbers, the corresponding approval date for these policies and any filing identification numbers.
- (b) A statement that the return of premium benefit will be made part of the ~~policy contract~~ at issue. Riders, endorsement or amendments for return of premium benefits cannot be added after issue of the policy.
- (c) Any policy pages or provisions referenced in the rider form.

B. ACTUARIAL MEMORANDUM REQUIREMENTS

- (1) If there is a return of premium benefit, include the information required by the Standards for Individual Disability Income Insurance Initial Rate Filing of the Interstate Insurance Product Regulation Commission.
- (2) For purposes of the minimum loss ratio compliance demonstration, the base policy shall meet minimum loss ratio with and without the return of premium benefit provided minimum loss ratio compliance demonstration when the return of premium benefit is combined with the policy shall assume one-hundred percent (100%) of policies are issued with the rider.
- (3) If there are any options to receive the return of premium benefit in a form other than cash, the options shall be actuarially equivalent:
 - (a) The option and any conditions shall be explained in the actuarial memo.
 - (b) The actuarial equivalence shall be described, including sample calculations, and shall only be based on the mortality and interest.
- (4) For a return of premium benefit at specified intervals, explain the calculation of the return of premium benefit if the insured dies before the end of the specified interval.
- (5) If there is a cash surrender benefit, a description of the calculation of the percentage of premium returned and a detailed sample calculation.
- (6) A demonstration that the reserve basis for such benefit is adequate including an example of reserve calculations.

DRAFTING NOTE: This demonstration is for informational purposes only as the Interstate Insurance Product Regulation Commission does not approve reserving information on behalf of the participating Compacting States.

§2 GENERAL FORM REQUIREMENTS

A. COVER PAGE

- (1) A brief description shall appear in prominent print on the cover page of the policy or return of premium benefit form or be visible without opening the policy or benefit form. The brief description shall contain at least the following information:
 - (a) A caption of the type of coverage provided; for example, “Return of Premium Benefit” or “Cash Surrender Value Benefit”.
 - (b) If the benefit does not provide return of 100% of premium, the description must state the benefit returns a percentage of premium and specify the percentage eligible for return.

B. SPECIFICATIONS PAGE

- (1) The specifications page of the return of premium benefit form shall specify the return of premium benefit period.
- (2) For a return of premium benefit that is paid at specified intervals, the specifications page shall provide a schedule showing the period or interval for which the premium will be returned expressed in months or years. The return of premium benefit period shall not exceed ten (10) years.
- (3) For a return of premium or cash surrender value benefit that is paid based on when the rider or policy is terminated or surrendered, the specifications page or the return of premium benefit form shall provide a schedule showing the percentage of premium returned at each policy year subject to the following requirements:
 - (a) The percentage shall be based on a full preliminary term method, with the preliminary term not to exceed five (5) years;
 - (b) A level annual factor, demonstrating a smooth pattern of increasing percentages, shall be assumed with no mortality factor included and an interest rate not to exceed five percent (5%) per year;
 - (c) If the percentages will be applied to premiums paid to date, rather than premiums projected to maturity, the above calculation shall be adjusted by (A)/(B), where (A)

is the duration at maturity, and (B) is the duration corresponding to the above unadjusted percentages;

- (d) The benefit shall be 100% of the return of premium benefit at no later than maturity or maximum age; and
- (e) The return of premium benefit period shall not exceed the period from issue to the insured's age 70.

NOTE FROM PRODUCT STANDARDS COMMITTEE: COMMENTS REGARDING SECTION 2.B(3) SHOULD INCLUDE AN ILLUSTRATION OR DEMONSTRATION OF HOW THIS TYPE OF BENEFIT GENERALLY APPEARS IN THE SPECIFICATIONS PAGES INCLUDING INFORMATION REGARDING THE PERCENTAGE GROWTH.

- (4) The specifications page of the return of premium benefit form shall identify the premium and other identifiable charges for the return of premium benefit.
- (5) If there are any options to receive the return of premium benefit in a form other than cash, the options shall be actuarially equivalent, and the actuarial equivalence shall be based only on mortality and interest described in the specifications page.

These items may be considered as variable items and marked to denote variability.

§ 3 BENEFIT PROVISIONS

A. BENEFIT

- (1) The return of premium benefit form shall describe the return of premium benefit.
- (2) For a return of premium benefit that is paid at specified intervals, the return of premium benefit form shall state the following information:
 - (a) A description of the length of the period or interval for which the premium will be returned expressed in months or years not to exceed ten (10) years;
 - (b) A description of when the period or interval commences;
 - (c) The specific amount or percentage of premium to be returned and whether it is inclusive or exclusive of premium waived, if applicable;
 - (d) The amount and time period for which claims may be deducted in the calculation of the return of premium benefit where such time period shall not exceed the length of an interval;

- (e) A description of how the return of premium benefit is calculated if the following circumstance(s) occurs before the end of the specified interval:
 - (i) Upon death of the insured, provided the benefit shall be no less than a prorated amount based on the number of months or days completed in the current interval period;
 - (ii) When the insured reaches the maximum age; or
 - ~~(ii)~~(iii) (iii) When the policy and/or rider is terminated.
- (f) A statement that no separate cash surrender values are provided.
- (3) For a return of premium benefit that is paid based on when the rider or policy is terminated or surrendered, the return of premium benefit form shall state the following information:
 - (a) A description of how the return of premium benefit is calculated and whether it is inclusive or exclusive of premium waived, if applicable;
 - (b) The amount and time period for which claims may be deducted in the calculation of the return of premium benefit;
 - (c) A description of how the return of premium benefit is calculated if the rider or policy is terminated or surrendered during the policy year; and
 - (d) A schedule showing the percentage of premium returned at each policy year pursuant to § 2(B)(3) unless included in the specification page(s).
- (4) The return of premium benefit form shall state that the return of premium benefit amount will be paid as a cash benefit. If there are any options to receive the return of premium benefit in an actuarially equivalent form other than cash, such as a paid-up disability income benefit, the option, how it will be elected, and any conditions shall be explained in the form.
- (5) The return of premium benefit form shall state that if the policy stays in force until the end of the return of premium period or interval, when the cash benefit is paid, the policy will continue in force as long as the required premiums are paid.
- (6) The return of premium benefit form shall state whether or not the return of premium benefit may be terminated without the policy being terminated.
- (7) The return of premium benefit form shall state whether claim benefits will be reduced, if received by the company after the premiums have already been returned to the owner.

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B. REINSTATEMENT

- (1) The company shall include a reinstatement provision and may impose a reasonable time limit to apply for reinstatement, but in no event less than six (6) months from the termination date of the return of premium rider, endorsement or amendment.
- (2) The company may have a requirement that the policy and the rider cannot be reinstated separately.
- (3) No evidence of insurability shall be required to reinstate the rider separate from the policy.
- (4) The reinstatement provision of the return of premium benefit form may require the payment of overdue premiums or, in the alternative, if the return of premium benefit is paid at specified intervals, the period or interval may be extended by the same number of days that elapsed between the date the first unpaid premium was due and the date of reinstatement.

C. TERMINATION

- (1) The form shall provide the return of premium benefit terminates when the claims paid under the policy exceed the amount of the total premium that would be paid over the life of the policy.
- (2) The form may include the following termination conditions:
 - (a) Upon the death of the insured;
 - (b) The date of termination of the policy or when the insured reaches the maximum age;
 - (c) Upon the lapse of the policy or the return of premium benefit form provided notice of lapse has been provided to the owner in advance;
 - (d) When the final return of premium benefit is paid; or
 - (e) Upon surrender of the return of premium benefit form for its cash surrender value or paid-up benefit if applicable.
 - (f) Upon receipt by the company of written request by the owner to terminate the rider, endorsement or amendment unless the request specifies a later date.