

June 21, 2019

Richard Wicka, Chair (WI)
NAIC Life Insurance Illustrations Issues (A) Working Group
c/o Jennifer Cook, NAIC
Via JCook@NAIC.org

RE: Draft Revisions to NAIC Life Insurance Disclosure Model Regulation (#580)

Dear Chairman Wicka & Members of the Working Group:

Pacific Life Insurance Company (Pacific Life) commends the working group for their stated charge of revising the Life Insurance Disclosure Model Regulation (#580) to enhance consumer readability and understandability of life insurance policy summaries. Similarly, Pacific Life appreciates the opportunity to offer suggestions that would further that goal.

To that end, Pacific Life respectfully recommends that, for policies not marketed with an illustration, the model be further amended to allow carriers to combine the requirements of the Policy Overview and Guaranteed Premium and Benefits Patterns Summary into one document (instead of two documents). The explanatory Policy Overview information provides context and meaning to the ledger-type Guaranteed and Benefits Pattern Summary. These requirements complement one another such that one document, containing all the required information, provides the consumer a clearer picture of the policy and its features. Separating this into two documents may result in unnecessary consumer confusion.

Pacific Life also believes that it is important that the model retain its current wording which would allow for such a document to be provided at time of policy delivery, consistent with the Life Insurance Buyer's Guide.

Pacific Life has further suggestions for improvement, which are tracked within the most recently exposed model draft. Pacific Life's additions are bolded, and all changes highlighted, with comments interspersed.

Section 4. Definitions

For the purposes of this regulation, the following definitions shall apply:

- G. “Guaranteed Premium and Benefit Patterns Summary” is a separate document that accompanies the Policy Overview where the insurer has identified the policy as one that will not be marketed with an illustration. **The insurer may combine the Guaranteed Premium and Benefit Patterns Summary and Policy Overview into a single document.**

Comment: The highlighted change would accomplish the request mentioned in the introductory portion of Pacific Life’s comment letter. That is, it makes clear that, for policies not marketed with an illustration, the insurer may combine the requirements of the Policy Overview and Guaranteed Premium and Benefits Patterns Summary into one document.

Section 5. Duties of Insurers

A. Requirements Applicable Generally

- (2) The insurer shall provide a Policy Overview to all prospective purchasers. ... The Policy Overview is not required to be in a specific format beyond the requirements of ~~the this~~ Section. ... headings:

Comment: Pacific Life proposes a grammatical correction here as highlighted.

- (c) “Information about the Insured” which shall include the following information, as applicable:
- (ii) ~~Sex~~ **Gender** of insured or insureds;
 - (iii) ~~Date of birth of insured or insureds;~~

Comment: Personally identifying information not necessary to the provision of a Policy Overview should be deleted from the proposed model revision as highlighted. Further, Pacific Life suggests that “Gender” be replaced with “Sex”. “Gender” is a fluid concept while “Sex” refers to genetic sex at birth. Using “Sex” enables insurers to apply traditional underwriting practices that are based on the insured’s or proposed insured’s genetic sex at birth.

- (v) Risk class ~~with a statement as to where the insured can find additional information regarding risk classes;~~

Comment: Every life insurer has a risk class structure different from those of other insurers for non-illustrated products. A consumer would need access to each insurer’s underwriting manual in order to compare company risk class structures. For this reason, detailed risk class information would not be a useful consumer comparison tool and should be deleted. For Policy Overview purposes, a simple provision of “risk class” will indicate basic class distinctions which might be useful to a consumer, e.g., smoker versus non-smoker.

~~(vi) The following statement: “In the course of considering an insured’s application, an insurer may request or collect health information about the insured in variety of ways.” The statement shall indicate whether a physical examination or questionnaire may be required.~~

Comment: The model relates to an overall summary for salient policy benefits and values, not underwriting methodologies which are more completely provided in application material that explicitly describes the carrier’s underwriting process. Further, underwriting may not be applicable, as is the case in certain guaranteed issue or conversion policies. As such, the statement may be confusing to the consumer. A brief policy overview/summary should avoid repetitive documentation and information that is provided elsewhere. While the proposed statement is generic, it is not material to the consumer’s understanding, especially when compared to what the carrier furnishes at time of application.

If, however, deletion of item 5A(2)(c)(vi) is preferred, Pacific Life proposes an alternative approach:

(vi) The following statement: “In the course of considering an insured’s application, an insurer may request or collect health information about the insured in variety of ways.” ~~The statement shall indicate whether a physical examination or questionnaire may be required.~~

Comment: There are a variety of questionnaires that may be required (i.e. travel, avocation) based upon how a proposed insured completes the application. These may not be immediately clear if the summary is provided at time of application. Additionally, these may not be relevant if the summary is provided at policy delivery.

(d) “Cost Information” which shall include the following information, as applicable:

~~(iii) Available options for premium funding such as policy payment periods, any dividend options or lump sum payments options.~~

Comment: Pacific Life recommends deletion of this proposed element as information useful to the consumer is already encompassed by subsection (ii).

- (v) ~~A description of surrender charges and the period of time that surrender charges apply~~ **Are there surrender charges and, if so, how long do they apply?:**

Comment: Pacific Life proposes a revising this sub-section without changing its intent.

- (vi) ~~A narrative description of the cost of insurance and other fees needed to keep the policy in force and how those fees may change over time.~~

Comment: Pacific Life believes that this element should be deleted in its entirety. Currently and historically, cost of insurance provisions has been approved by every insurance regulator in every state. The definition of these provisions is the subject of numerous judicial proceedings. Further, this would require the insurer to replicate the cost of insurance provision in its entirety, which is often of considerable length, to accurately describe its features.

- (e) “Policy Information” which shall include the following information, as applicable:

- (vi) **Policy effective date:**

Comment: Pacific Life believes that reference to “Policy Effective Date” should be deleted as the policy effective date may not be known at time of application. Rather, this date is likely only available when the policy is delivered.

- (f) “Additional Policy Benefits” which shall include the following information, as applicable:

Comment: Pacific Life proposes no changes here but expresses appreciation that the phrase “as applicable” is present. This prevents long lists of information that may not be applicable or relevant and allows the insurer to provide only the pertinent information so as not to overwhelm the consumer with extraneous details.

- (3) The insurer shall provide a Guaranteed Premium and Benefits Patterns Summary to prospective purchasers where the insurer identified the policy form as one that will not be marketed with an illustration. Delivery of the Guaranteed Premium and Benefits Patterns Summary shall be consistent with the time for delivery of the Buyer’s Guide as specified in Paragraph (1). The Guaranteed Premium and Benefit Patterns Summary shall show guarantees only and include all required

information set out in a manner that does not minimize or render any portion of the description obscure. Any amounts that remain level for two (2) or more years of the policy may be represented by a single number if it is clearly indicated what amounts are applicable for each policy year. Amounts shall be listed in total, not on a per thousand or per unit basis. If more than one insured is covered under one policy or rider, death benefits shall be displayed separately for each insured or for each class of insureds if death benefits do not differ within the class. Zero amounts shall be displayed **in an unambiguous manner, with consistent use of either zeros or blanks in a summary document** as a blank space. The following amounts, where applicable, for the first five (5) policy years and representative policy years thereafter sufficient to clearly illustrate the premium and benefit patterns; including at least one age from sixty (60) through sixty-five (65) and policy maturity:

Comment: The “zero amounts” phrase is one of the items that differs widely among states’ adoptions of the model as previously drafted. Some states require a zero, while others ask for blanks. Pacific Life suggests adding flexibility into the model to address variances amongst states as they adopt the model.

- (b) The annual premium for each optional rider, **if any**;

Comment: Adding the phrase “if any” will prevent non-applicable information from populating the document.

- (c) ...; The amount payable upon death at the beginning of the policy year regardless of the cause of death, other than suicide or other specifically enumerated exclusions, that is provided by the basic policy and each optional rider; with benefits provided under the basic policy and each rider shown

Comment: Pacific Life does not recommend changes to this requirement but highlights it as further support for combining the Guaranteed Premium and Benefit Patterns Summary and Policy Overview into one document. Descriptions of the face amounts associated with each rider are needed to make the information meaningful but may be challenging to understand if it is in a ledger format.

- (d) The total guaranteed cash surrender values at the end of **each policy** year with values shown separately for the basic policy and each rider **that has a cash surrender value**;

Comment: Pacific Life proposes a clarification to reduce the need to generate non-applicable information that could be interpreted to suggest that a value is missing from a policy or rider which was not designed, approved or intended to provide a cash surrender value.

- (f) The **maximum** effective policy loan annual percentage interest rate, if the policy contains this provision, specifying whether this rate is applied in advance or in arrears. If the policy loan interest rate is adjustable, the Guaranteed Premium and Benefits Patterns Summary shall also indicate that the annual percentage rate will be determined by the company **in accordance with the provisions of the policy and the applicable law.**

Comment: When only guaranteed elements are specified, Pacific Life recommends using the maximum allowed under the policy to be consistent with the use of guaranteed elements only. Text specifying the adjustable nature to lesser amounts is also consistent. Further, Pacific Life recommends deletion superfluous text at the end of the paragraph.

B. Requirements Applicable to Existing Policies.

- (1) Upon request by the policyowner, the insurer shall furnish either policy data or an in force illustration as follows:
- (d) Unless otherwise requested, the policy data shall be provided for twenty (20) consecutive years beginning with the previous policy anniversary **or later but prior to the in force statement date.** The statement of policy data shall include nonguaranteed elements according to the current scale, the amount of outstanding policy loans, and the current policy loan interest rate. Policy values shown shall be based on the current application of nonguaranteed elements in effect at the time of the request. The insurer may charge a reasonable fee, not to exceed \$[insert amount], for the preparation of the statement.

Comment: Pacific Life believes that it is more beneficial to the consumer to receive an in force guaranteed quote based on the most recent values, not only those starting at the prior anniversary. Pacific Life believes that some states have not adopted the in force provisions of the current model regulation, perhaps, in part, because of this requirement.

In closing, Pacific Life again commends the Working Group for their stated charge. Pacific Life further appreciates the opportunity to partner in establishing meaningful updates to the model regulation that meet our shared goal of fostering greater consumer understanding of life insurance products.

Sincerely,

Pacific Life Insurance Company