



Comments of the Center for Economic Justice
To the NAIC Life Insurance Illustrations Working Group
Regarding Improvements to the Life Insurance Disclosure and Illustration Models
September 23, 2018

CEJ writes with comments on the exposed draft revisions to the Models 580 and 582 to incorporate a “cover document” policy summary. To set the framework for our comments, we start by presenting the charge of the working group, followed by purposes of each of the models

The charge of the working group

Explore how the narrative summary required by Section 7B of the Life Insurance Illustrations Model Regulation (#582) and the policy summary required by Section 5A(2) of Model #580 can be enhanced to promote consumer readability and understandability of these life insurance policy summaries, including how they are designed, formatted and accessed by consumers.

The purpose of Model 582 – Life Insurance Illustrations Model Regulation – is set out in Section 1 of the model:

The purpose of this regulation is to provide rules for life insurance policy illustrations that will protect consumers and foster consumer education. The regulation provides illustration formats, prescribes standards to be followed when illustrations are used, and specifies the disclosures that are required in connection with illustrations. ***The goals of this regulation are to ensure that illustrations do not mislead purchasers*** of life insurance and to make illustrations more understandable. Insurers will, as far as possible, eliminate the use of footnotes and caveats and define terms used in the illustration in language that would be understood by a typical person within the segment of the public to which the illustration is directed. (Emphasis added)

The purpose of Model 580 – Life Insurance Disclosure Model Regulation – is set out in Section 2 of the model:

- A. *The purpose of this regulation is to require insurers to deliver to purchasers of life insurance information that will improve the buyer's ability to select the most appropriate plan of life insurance for the buyer's needs and improve the buyer's understanding of the basic features of the policy that has been purchased or is under consideration.* (Emphasis added)
- B. This regulation does not prohibit the use of additional material that is not a violation of this regulation or any other [state] statute or regulation.

It should be noted that Section 1 of Model 580 establishes the authority for the regulation pursuant to the state's Unfair Trade Practices Act. Thus, failure to achieve the purpose set out in section 2A is understood as an unfair trade practice.

Amendments to Model 580 Needed, Not to Model 582, for Policy Overview.

While the charge to working group is to explore specific provisions of the two models, the addition of the policy overview is needed for Model 580 – Life Insurance Disclosure Model Regulation – but not in Model 582 – Life Insurance Illustration Model Regulation

The purpose of Model 582 is to provide guidance for illustrations. The purpose of Model 580 is to provide information to enable consumers to shop and make informed purchases of the products that meets his or her needs. The incorporation of a policy overview makes sense as part of the Disclosure Model and, as such, will be provided for any life insurance policy, except those specifically exempted in Section 3. It would not only be duplicative to include the same requirements for the narrative summary in Model 582, but would be inconsistent with the purpose of the narrative summary which is to explain the illustration and not to provide consumers with a broader shopping tool.

To be clear, we believe that improvements to Section 7B of the Illustration Model are needed. But those improvements should not be the addition of the same policy overview requirements that will be added to the Disclosure Model.

In summary, we recommend that the policy overview addition be limited to the Disclosure Model and, when completed, the working group then turn to review of Section 7B of the Illustration Model for any improvements specifically related to the illustration.

Revisions to the Disclosure Model

The proposed addition to Section 4F – definition of “policy summary” – to add a “cover document” guarantees consumer and insurer confusion because the “cover document” replicates many of the elements currently listed and proposed-to-be-retained for the policy summary, including, current section 4F1, 2, 4, and parts of 4F5. The “cover document” should be a revised “policy summary” and not an add-on to an existing disclosure.

In addition, Section 5A2 currently includes requirements for the policy summary not included in the Section 4F definition of policy summary, including

The insurer shall provide a policy summary to prospective purchasers where the insurer has identified the policy form as one that will not be marketed with an illustration. The policy summary shall show guarantees only. It shall consist of a separate document with all required information set out in a manner that does not minimize or render any portion of the summary 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 in Section 4F(5) 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 as a blank space. Delivery of the policy summary shall be consistent with the time for delivery of the Buyer’s Guide as specified in Paragraph (1).

It is, consequently, necessary, to amend Section 5 in combination with the changes to Section 4F

A. Requirements Applicable Generally

- (1) The insurer shall provide a Buyer’s Guide to all prospective purchasers, at the time of delivery of the policy summary, which shall be, at a minimum, prior to accepting the applicant’s initial premium or premium deposit. ~~However, if the policy for which application is made contains an unconditional refund provision of at least ten (10) days, the Buyer’s Guide may be delivered with the policy or prior to delivery of the policy. If agreed to in writing or by electronic means, the insurer may provide the Buyer’s Guide to a prospective purchaser in electronic or digital format.~~

- (2) The insurer shall provide a policy summary to prospective purchasers for all policy forms subject to this regulation, in addition to any other requirements for illustrations, where the insurer has identified the policy form as one that will not be marketed with an illustration.

[The following section should be merged with 4F5, which also includes provisions for explaining the “premium and benefit patterns” of the policy.]

The policy summary shall show guarantees only. It shall consist of a separate document with all required information set out in a manner that does not minimize or render any portion of the summary 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 in Section 4F(5) 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 as a blank space. Delivery of the policy summary shall be consistent with the time for delivery of the Buyer’s Guide as specified in Paragraph (1).

Revisions to Section 4F

We suggest revising Section 4F as follows:

- F. “Policy summary” means a document describing the key features, benefits and cost of the policy presented in a manner to facilitate the purposes of this model and substantially similar to the model form in Appendix X.~~written statement describing the elements of the policy, including, but not limited to:~~
- (1) A prominently placed title as follows: Summary and Overview of Product Features, Benefits and Costs~~STATEMENT OF POLICY COST AND BENEFIT INFORMATION~~; and the date on which the document is delivered the prospective purchaser.

- (2) An introductory section containing the following language: “This document lists this product’s key features, benefits and costs. You can get a similar summary of key product features from other insurance companies to help you compare similar products. If you have questions about this particular life insurance product, ask the agent, broker, advisor, or a company representative offering this product for clarification. If you have questions about life insurance products generally or about company or agent licensing, contact the state insurance department.”
- (3) The name and address of the insurance agent or, if no agent is involved, a statement of the procedure to be followed in order to receive responses to inquiries regarding the Summary of Policy Features, Benefits and CostsPolicy Summary;
- (3) The full name and home office or administrative office address of the company in which the life insurance policy is to be or has been written;
- ~~(4) The generic name of the basic policy and each rider;~~
- (4) “Information about the Insured” which shall include the following information, as applicable:
 - (a) Name of insured or insureds;
 - (b) Gender of insured or insureds;
 - (c) Date of birth of insured or insureds;
 - (d) Issue age of insured or insureds;
 - (e) Risk class with a citation to the page where a description of the risk class is located in the policy summary;
 - (f) A narrative description of any health factors that are used in underwriting and, if the policy summary is provided prior to underwriting, whether a physical examination will be required;

- (5) “Cost Information” which shall include the following information, as applicable:
 - (a) Initial premium and premium mode;
 - (b) A short statement describing if the premium and other costs vary after the first year, and, if so, how premium and other costs will be determined after the first year;
 - (c) Available options for premium funding including policy payment periods, application of dividends toward premium, and lump sum payments options;
 - (d) Waiver of premium options;
 - (e) A description of surrender charges and the period of time that surrender charges apply.
 - (f) 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;

- (6) “Policy Information” which shall include the following information, as applicable:
 - (a) Product type (Including single or joint policy);
 - (b) Product name and form number;
 - (c) Coverage period description;
 - (d) Initial death benefit and a short description of any changes to the benefit that may occur;
 - (e) Death benefit options;
 - (f) Policy effective date;
 - (g) State of issue; and
 - (h) Policy loan options and applicable charges;

- (7) “Additional Policy Benefits” which shall include the following information, as applicable:
- (a) Eligibility for a dividend;
 - (b) Conversion options that may be exercised;
 - (c) Options to extend the term of the coverage;
 - (d) Any available optional riders [as requested by the insured] and their cost;
 - (e) Living benefit options;
 - (f) Option to lower benefits to reduce premium;
 - (g) Accumulation of cash value;
 - (h) Guaranteed interest rate; and
 - (i) Indexed account options.
- (8) A description of the premium and benefit patterns as a separate document that accompanies the Summary of Policy Benefits, Features and Costs. The description of premium and benefit patterns 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 as a blank space. Delivery of the policy summary shall be consistent with the time for delivery of the Buyer’s Guide as specified in Paragraph (1). 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:
- (a) The annual premium for the basic policy;
 - (b) The annual premium for each optional rider;

- (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 separately;
- (d) The total guaranteed cash surrender values at the end of the year with values shown separately for the basic policy and each rider; and
- (e) Any endowment amounts payable under the policy that are not included under cash surrender values above;

 ~~(f)~~ The 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 policy 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; and

~~(7) — The date on which the policy summary is prepared.~~

Thank you for your consideration of our comments.